

Austin has changed in the 17 years  
since our last rate review.

Our commitment to our customers remains unchanged.



# **Austin Energy Rate Analysis and Recommendations Summary Report**

**August 29, 2011**





# Rate Analysis and Recommendations Summary Report

Austin Energy

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## **Executive Summary to Austin Energy Rate Analysis and Recommendations Summary Report**

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Much has changed in the 17 years since Austin Energy's last comprehensive rate review. The Austin Metropolitan Statistical Area population has grown from a little over one million in 1995 to about 1.8 million in 2010; Austin Energy added about 115,000 customers, a 38 percent increase. Texas electric markets are now deregulated. Austin's urban core is bursting with new vitality and now hosts both high-density housing and a wide range of commercial enterprises. Residential communities, both single- and multi-family, have spread out across Austin Energy's service territory.

Always a home for University of Texas students, staff, and faculty, Austin has now also become a major event and tourism center, drawing large crowds of visitors for music, sports, and business events. Customers are using a wide range of new, electrically powered devices and equipment unanticipated 20 years ago. Austin hosts a thriving high-tech industrial sector that provides thousands of jobs and needs superior electric power quality and reliability. The greater Austin community looks, works, and plays very differently than it did less than two decades ago. Austin Energy, which provides energy to this community, has changed as well.

Since 1994, Austin Energy has made significant financial investments in infrastructure to ensure adequate power supply and reliability. Program offerings have been expanded in response to customer demand and strategic goals. Austin Energy's business functions are guided by a strategic plan approved by the Austin City Council in December 2003. The strategic plan emphasizes management of overall risk, sustainability of financial health, high system reliability and resource availability, innovative energy resources, cost-effective adoption of new technologies, and excellent customer service.

Over the last 17 years, Austin Energy has added new functions and programs, technology systems, homeland security measures, and additional power supply, and has improved its energy service delivery system. The utility earns high scores for reliability and consistently receives national recognition as a leader in energy efficiency and for its GreenChoice® program. Austin Energy is a strong partner in the region's economic growth and in community development. As a utility wholly owned by the City of Austin, the utility has returned hundreds of millions of dollars to the community in General Fund support and direct economic assistance.

Austin Energy's investments in clean energy and superior operational performance have also spurred the creation of local jobs in related fields like solar system installation, home and business energy efficiency, green building design and construction, and advanced electric system engineering. Now, Austin Energy needs to adjust its rates and rate structure in order to continue delivering clean, affordable, reliable energy and excellent customer service.



Austin Energy's 1994 vintage rate structure no longer serves the community or the utility, and does not reflect the reality of Austin Energy's business situation. Electric utility rates are designed to achieve financial goals and provide an essential service in a manner that serves the public interest. When rates no longer meet strategic public policy and business objectives, review and redesign are necessary. Austin Energy is not alone in facing the need for change. Over the past two decades, there have been fundamental changes in the way other services are provided and priced, such as cellular phone and cable television. Today, the greater Austin community needs Austin Energy to offer a modernized rate structure that promotes efficient use of energy, new energy resources, and adoption of new cost-effective energy technologies, all the while ensuring financial health and achievement of the utility's mission to deliver clean, affordable, reliable energy and excellent customer service.

### **Benefits of Public Power**

Austin's first utility company, the Austin Water, Light, and Power Co., was a private company formed in 1887. The City of Austin determined that local control of electric service and reliability were so important to the community that, in 1902, the City purchased the company and has owned its generation and distribution system ever since. Austin Energy, the City of Austin's municipal electric utility, has provided electric service to the local community for over 100 years.

Austin Energy's service area currently encompasses 206.41 square miles within the City of Austin itself and 230.65 square miles of surrounding Travis and Williamson Counties.

*Austin Energy is a public power electric utility directly accountable to the communities it serves.*

Public power is a collection of more than 2,000 community-owned electric utilities, serving over 45 million people or about 14 percent of the nation's electricity consumers. The Public Power model delivers a number of distinct benefits to customers and communities. These benefits include:

- Austin Energy's policies and strategic objectives are set locally, directly reflecting community values and priorities and taking into account both near and long-term needs and concerns.
- Austin Energy's major investments are decided locally with high levels of public involvement opportunity.
- Austin Energy's staff are quick to respond to emergency problems or customer needs because they are citizens of our local and surrounding communities.
- Austin Energy's rates generate contributions to the local General Fund that benefit all members of the community—and are not distributed to distant stockholders.
- Austin Energy supports the local economy with direct and indirect contributions to economic development, community activities, and education.

## Need for Rate Review

Austin Energy last reset base electric rates (non-fuel) in 1994. While those rates have served the public interest for longer than expected, comprehensive review and redesign are necessary. Austin Energy has successfully met the challenges of the last two decades with revenue from customer growth as well as cost-cutting, adjustments, deferrals, and new initiatives. The cumulative effects of nearly two decades of changes in the utility industry, the state of the economy, the shape of local business and industry, and the way customers use electricity must be effectively addressed for Austin Energy to continue to successfully serve the community cost effectively.

***A sound financial condition and rates sufficient to cover expenses and investments are fundamental to maintaining and enhancing electric infrastructure, obtaining competitive borrowing rates, effective market participation, and the ability to attract and retain a highly skilled workforce.***

Key drivers for rate review and change are economic, financial, market-related, and regulatory. These include:

- Austin Energy's current rate structure is misaligned with its cost structure, thus, Austin Energy under-recovers its fixed costs. Austin Energy is geographically limited, infrastructure-driven, subject to large sales variation due to economic conditions, and focused on reducing customer bills through a combination of affordable rates and cost-effective energy efficiency investment.
- Austin Energy must pay its fair share of statewide investments in transmission infrastructure and market operation systems (the "Nodal Market"). While these investments are expected to provide significant savings, they represent a new cost for Austin Energy.
- Austin Energy's revenue growth has eroded in recent years while the price of nearly everything has risen. From health care costs to commodity prices for steel, cable, and concrete, Austin Energy's base rates set in 1994 no longer reflect economic conditions.
- Austin Energy today operates in a very different financial market than 17 years ago. The financial markets crisis has adversely affected interest rates on deposits and other costs related to financial transactions, such as letter of credit fees.
- Austin Energy's customers have been significantly impacted by recent economic conditions, which in turn have directly affected Austin Energy earnings. Many large industrial and small commercial customers have cancelled or deferred expansions. The new construction markets for homes and small businesses have slowed.

Austin Energy must review and revise its rates to address the financial and revenue impacts of these changes, but also must devise and implement the measures necessary to mitigate adverse impacts from the continuation of the major trends.



In this review, the utility continues to be guided by a strategic set of objectives summarized in the following section.

### **Rate Review Objectives**

*Austin Energy is guided by a set of policy objectives derived from Austin Energy's approved strategic plan:*

- *Ensure long-term financial strength by setting rates that meet Austin Energy's revenue requirement and achieve sustained revenue stability;*
- *Improve fixed cost recovery to maintain sufficient revenues into the future;*
- *Align rates with Austin Energy's Strategic Plan by designing rates that encourage efficient energy use and meet changing customer needs by supporting technologies like solar electricity generation and electric vehicles; and*
- *Update rates and rate structures to distribute costs fairly among customer classes and encourage efficient energy use.*

## **Public Involvement Process**

Austin Energy formally launched the rate review process in January 2011. In addition to input sought and received at numerous Austin City Council and Electric Utility Commission meetings, the utility convened a Public Involvement Committee (PIC) to act as a sounding board for the many issues involved in developing rate recommendations and options. The PIC met monthly from January through June of 2011, and was composed of 14 members of the community representing all Austin Energy customer classes and major stakeholder groups.

Austin Energy also retained an Independent Residential Rate Advisor to provide input and feedback specifically from the perspective of residential customers. The Independent Residential Rate Advisor will produce a public report.

Materials developed for the PIC process and in response to the many inquiries received from customers and the public have been published at Austin Energy's dedicated rate review website, [www.rates.austinenergy.com](http://www.rates.austinenergy.com).

Throughout the process, Austin Energy has delivered public, televised briefings about the rate review process to the Electric Utility Commission and Austin City Council. Austin Energy will continue these activities throughout the coming months.



## Revenue Requirement

Austin Energy began the internal process of reviewing rates by determining how much revenue is required from customers in a single year to continue to provide electric service. The total revenue requirement process collects data on the costs for the functions of power production, transmission, distribution, and customer service.

***Revenue Requirement is the total amount of money that must be collected from customers through rates in order to pay all the costs of running the utility during a representative “Test Year.”***

Comparing the total revenue requirement to the amount of money actually collected in base rates is the next step in the process. Table ES-1 presents the summarized results of the revenue requirements study.

**Table ES-1.  
Total Revenue and Revenue Need**

Measure	Test Year 2009
Total Revenue Requirement (\$)	1,136,020,803
Test Year Rate Revenue Under Existing Rates (\$)	1,004,133,897
Needed Increase in Revenues (\$)	131,886,906
Needed Increase in Revenues (%)	13.1
Needed Increase in Revenues From Contract Customers (\$)	20,751,131
Requested Increase in Revenues (\$)	111,135,775
Requested Percent Increase in Revenues (%)	11.1

Austin Energy’s total revenue requirement is \$1.1 billion. The utility requires an additional \$131.9 million in annual revenue, representing a 13.1 percent average increase in revenues. Approximately \$20 million of the amount Austin Energy needs to collect from its customers to meet the total revenue requirement can be directly traced to growth in the cost of serving large industrial customers currently on the long-term contract rates. These contracts expire in May 2015, so the associated revenue requirement has been excluded. Other residential and commercial customers will not be asked to pay the long-term customer portion of the increased revenue requirement. The adjusted revenue requirement is \$111.1 million or a 11.1 percent increase.

## Cost of Service

The next major component of any rate review is a cost of service study. This study groups customers into rate classes based on similar characteristics, and then assigns total revenue requirements to these customer groups based on the costs of providing them with service. Generally, customer classes differ according to how much energy they use and how they use it—known as “level of service.”

*The Cost of Service Study calculates the fair share of total revenue requirement that each customer class should pay.*

The cost of providing electric service to Austin Energy customers has changed. While rates were originally set to fairly charge for a customer’s level of service, today those rates do not properly cover costs. Rate review and redesign is now necessary to re-align rates to more closely reflect the cost to serve customers. Table ES-2 summarizes the results of the cost of service study.

**Table ES-2.**  
**Cost of Service Results by Customer Class**

Customer Class	Revenue Deficiency	Increase Needed to Meet Cost of Service
	(\$ millions)	(%)
Residential	107.0	28.7
Secondary Voltage <10 kW	10.0	27.5
Secondary Voltage 10 - <50 kW	3.3	3.6
Secondary Voltage ≥50 kW	2.2	0.6
Primary Voltage <3 MW	(1.2)	(3.9)
Primary Voltage 3 - <20 MW	4.6	9.8
Primary Voltage ≥20 MW	5.1	8.8
Transmission Voltage	(1.6)	(10.3)
AE-Owned Private Outdoor Lighting	1.9	97.4
Non-Metered Lighting	0.0	34.4
Metered Lighting	<u>0.5</u>	<u>126.8</u>
<b>Total</b>	<b>131.9</b>	<b>13.1</b>

## Rate Design

Austin Energy used the revenue requirement and cost of service study analysis to design new rates for each customer class. The electric bill that customers pay each month is actually a combination of a wide range of charges associated with all the activities needed to provide service.

*The Rate Design process seeks to fairly assign total cost of service to rate elements so that customers can understand and manage their electric bills more effectively.*

For residential customers, Austin Energy proposes the following cost components:

**Customer Charge** for billing, meters, customer service, and other customer service related costs.

**Electric Delivery Charge** for the electric system infrastructure and equipment that delivers electricity to homes and businesses.

**Energy Charge** for power production costs including fuel costs.

**Energy Adjustment Charge** to account for future fluctuations in fuel and energy market costs.

**Regulatory Charge** for statewide transmission costs and regulatory fees imposed outside of the utility's control.

**Community Benefit Charge** for costs associated with services that provide benefit to the community, including the Customer Assistance Program, street lighting, and energy efficiency programs.

Commercial customers see additional rate components broken out on their bills, including a demand charge and power factor adjustment. These costs are included in the energy charge for residential customers..

## Residential Rate Options

Austin Energy prepared several rate design options for residential customers. While these different options are all designed to recover the full revenue requirement associated with residential electric service in the Austin community, they vary in some important ways.

All Austin Energy residential rate options seek to recover more of the cost of service from fixed charges than was the case in the 1994 rates. As Table ES-3 shows, none of the options seek to implement rates strictly according to the cost of service analysis. The utility's goal is to implement rate redesign as close to cost of service as possible. Strict implementation would be impractical.

*Austin Energy used the cost of service study, policy, and principles of sound rate making as the basis for rate design.*

All Austin Energy residential rate design options continue the long-standing structure of providing a lower rate for the first tier of usage to encourage conservation and support efficient energy use. Some of the options include additional rate levels or tiers, with the rate increasing progressively as customers increase total energy use. This design feature encourages even more efficient use of energy by providing customers with a real savings incentive. Table ES-4 provides additional comparative information about the residential rate design options.

**Table ES-3.**  
**Residential Rate Options and Estimated Prices**

Residential Rate Options (summer season only)	Existing Rate	Cost of Service	Option Supported by Rate Analysis & Recommendation Report	Staff Options		
				Option A	Option B	Option C
Customer Charge (\$/month)	\$6.00	\$21.69	\$15.00	\$10.00	\$10.00	\$30.00
Electric Delivery (\$/month)	Inc. Below	\$14.13	\$10.00	\$10.00	\$6.24	N/A
Energy Charge (¢/kWh) – Summer Period (June-Sept)						
< 500 kWh (32% of bills)	6.948 ¢	7.504 ¢	5.514 ¢	5.514 ¢	6.948 ¢	0-300 (cust. charge)
501 – 1000 kWh (33% of bills)	11.218 ¢	7.504 ¢	9.514 ¢	9.514 ¢	11.218 ¢	300-1000 @ 10.000 ¢
1001 - 1500 kWh (18% of bills)	11.218 ¢	7.504 ¢	12.014 ¢	13.503 ¢	11.218 ¢	12.188 ¢
1501 – 2500 kWh (13% of bills)	11.218 ¢	7.504 ¢	13.514 ¢	16.003 ¢	11.218 ¢	13.712 ¢
> 2500 kWh (5% of bills)	11.218 ¢	7.504 ¢	14.514 ¢	17.503 ¢	11.218 ¢	14.728 ¢
Energy Adjustment (¢/kWh)	Inc. Above	-	-	-	-	-
Community Benefit (¢/kWh)		See below	See below	See below	See below	See below
Customer Assistance Program	Inc. Above	0.065 ¢	0.065 ¢	0.065 ¢	0.065 ¢	0.065 ¢
Service Area Street Lighting	Inc. Above	0.114 ¢	0.114 ¢	0.114 ¢	0.114 ¢	0.114 ¢
Energy Efficiency Charge	Inc. Above	0.301 ¢	0.301 ¢	0.301 ¢	0.301 ¢	0.301 ¢
Regulatory Charge (¢/kWh)	0.082 ¢	0.729 ¢	0.729 ¢	0.729 ¢	0.729 ¢	0.729 ¢
Average Monthly Bill at Usage Shown						
300 kWh Avg Annual Electric Bill	\$26.84	\$60.89	\$42.96	\$37.96	\$40.71	\$33.63
1000 kWh Avg Annual Electric Bill	\$92.33	\$119.39	\$102.21	\$97.21	\$113.16	\$102.76
2500 kWh Avg Annual Electric Bill	\$247.10	\$244.74	\$289.53	\$312.55	\$281.57	\$292.54
Monthly Dollar Difference from Current Rates						
300 kWh Avg Annual Electric Bill		\$34.05	\$16.12	\$11.12	\$13.87	\$6.78
1000 kWh Avg Annual Electric Bill		\$27.06	\$9.88	\$4.88	\$20.83	\$10.43
2500 kWh Avg Annual Electric Bill		(\$2.36)	\$42.43	\$65.45	\$34.47	\$45.44
Percent Change from Current Rates						
300 kWh Avg Annual Electric Bill		127%	60%	41%	52%	25%
1000 kWh Avg Annual Electric Bill		29%	11%	5%	23%	11%
2500 kWh Avg Annual Electric Bill		-1%	17%	27%	14%	18%

**Table ES-4.**  
**Evaluation Matrix for Residential Rate Options**

		<b>Option Supported by Rate Analysis &amp; Recommendation Report</b>	<b>Staff Options</b>		
<b>Rate Review Objectives and Policy Metrics</b>	<b>Cost of Service</b>	<b>Option A Achieve Rate Review Objectives</b>	<b>Option B Shift Greater Fixed Costs to Energy Charge</b>	<b>Option C Current Energy Rates with New Fixed Charges</b>	<b>Option D 300 kWh Energy in Basic Monthly Charge &amp; 4 Tiers</b>
<b>Achieves Revenue Stability</b>	Collecting all fixed costs in customer charge reduces revenue uncertainty due to economic volatility. Rate stabilization reserve established.	Improves fixed cost recovery and reduces revenue uncertainty. Rate stabilization reserve established.	Improves fixed cost recovery and reduces revenue uncertainty. Rate stabilization reserve established.	Improves fixed cost recovery and reduces revenue uncertainty. Rate stabilization reserve established.	Improves fixed cost recovery and reduces revenue uncertainty. Rate stabilization reserve established.
<b>Ensures Long-Term Financial Strength</b>	Meets revenue requirements.	Meets revenue requirements.	Meets revenue requirements.	Meets revenue requirements.	Meets revenue requirements.
<b>Improves Fixed Cost Recovery</b>	100%	70%	56%	45%	84%
<b>Promotes Energy Efficiency &amp; Distributed Solar</b>	Weak incentive.	Strong incentive.	Strong incentive.	Weak incentive.	Strong incentive.
<b>Minimize inter-class subsidies vs. cost of service study</b>	Achieves cost of service and eliminates all inter-class subsidies.	All rate classes within 5% of cost of service goal.	All rate classes within 5% of cost of service goal.	All rate classes within 5% of cost of service goal.	All rate classes within 5% of cost of service goal.
<b>Minimize intra-class subsidies vs. cost of service study</b>	No subsidy. All usage tiers at cost of service.	Intra-class subsidy at mid-level.	Highest intra-class subsidy.	Lowest intra-class subsidy.	Intra-class subsidy at mid-level.
<b>Provides Rates Simplicity</b>	Similar to 1994 structure.	Introduces multiple tiers.	Introduces multiple tiers.	Similar to 1994 structure.	Introduces multiple tiers.
<b>Customer Assistance Program funding.</b>	Improves.	Improves.	Improves.	Improves.	Improves.

## Commercial and Industrial Rate Recommendations

Austin Energy redesigned rates for commercial and industrial electric service. The demand charge, based on a customer's monthly peak demand, reflects the way these costs are incurred in serving commercial and industrial customers. A demand charge also provides an effective pricing signal for commercial customers to conserve energy and improve efficiency of electricity use.

A number of recommendations are proposed for the structure of commercial and industrial customer rates:

**Class Consolidation:** Consolidate commercial and industrial customers into seven classes.

**Demand Charges:** Expand the use of demand charges to all Secondary Voltage customers.

**Demand Charge Phase-in:** Phase in demand charges over three years for the smallest commercial customers.

**Add Customer Charge:** Apply a customer charge at or near cost of service for all commercial and industrial customers.

**Add Electricity Delivery Charge:** Apply an electricity delivery charge on a \$/kW basis for all commercial and industrial customers.

**Power Factor:** Increase power factor adjustment from 85 to 90 percent to all but the smallest commercial customers.

**Regulatory Charge** for statewide transmission costs and regulatory fees imposed outside of the utility's control.

**Community Benefit Charge** for costs associated with services that provide benefit to the community, including the Customer Assistance Program, street lighting, and energy efficiency programs.

Table ES-5 summarizes commercial and industrial proposed rates by proposed customer class. Alternative rates will be available for Time-of-Use, GreenChoice, and Net Metering.

**Table ES-5.  
Commercial and Industrial Proposed Rates**

Commercial and Industrial Proposed Rates	Secondary Service <10 kW	Secondary Service 10-<50 kW Non-Demand	Secondary Service 10-<50 kW	Secondary Service ≥50 kW Non-Demand	Secondary Service ≥50 kW	Primary Service <3MW	Primary Service 3 - <20 MW	Primary Service ≥20 MW	Transmission
Customer Charge (\$/month)	18.00	25.00	25.00	65.00	65.00	250.00	2000.00	2500.00	2500.00
Electric Delivery (\$/kW billed)	1.50	2.00	4.00	2.00	4.50	2.50	3.50	3.50	N/A
Demand (\$/kW billed)									
Summer	1.00	2.00	6.50	2.00	8.00	10.00	13.00	13.00	13.00
Non-Summer	1.00	2.00	5.50	2.00	7.00	9.00	12.00	12.00	12.00
Energy (¢/kWh)									
Summer	9.097¢	7.505¢	5.868¢	7.855¢	5.142¢	4.127¢	4.004¢	3.945¢	3.466¢
Non-Summer	7.278¢	7.023¢	5.491¢	7.351¢	4.812¢	3.862¢	3.747¢	3.692¢	3.243¢
Community Benefit Charges (¢/kWh)									
Customer Assistance Program	0.065¢	0.065¢	0.065¢	0.065¢	0.065¢	0.065¢	0.065¢	0.065¢	0.065¢
Service Area Street Lighting	0.113¢	0.088¢	0.088¢	0.078¢	0.078¢	0.066¢	0.062¢	0.059¢	0.053¢
Energy Efficiency Charge	0.296¢	0.231¢	0.231¢	0.206¢	0.206¢	0.174¢	0.162¢	0.156¢	0.139¢
Regulatory Charge									
(¢/kWh)	0.711¢								
(\$/kW billed)		2.44	2.44	2.57	2.57	2.28	2.93	2.92	2.49
Percent Class Rate Change	22%	9%	9%	6%	6%	1%	16%	15%	-5%



## Conclusion

Austin Energy's 1994 vintage rate structure no longer serves the community or the utility, and does not reflect the reality of Austin Energy's business situation. Electric utility rates are designed to achieve financial goals and provide an essential service in a manner that serves the public interest. When rates no longer meet strategic public policy and business objectives, review and redesign are necessary. Today, the greater Austin community needs Austin Energy to offer a modernized rate structure that promotes efficient use of energy, new energy resources, and adoption of new cost-effective energy technologies, all the while ensuring financial health and achievement of the utility's mission to deliver clean, affordable, reliable energy and excellent customer service.

***Mission:***

***To deliver clean, affordable, reliable energy and excellent customer service.***

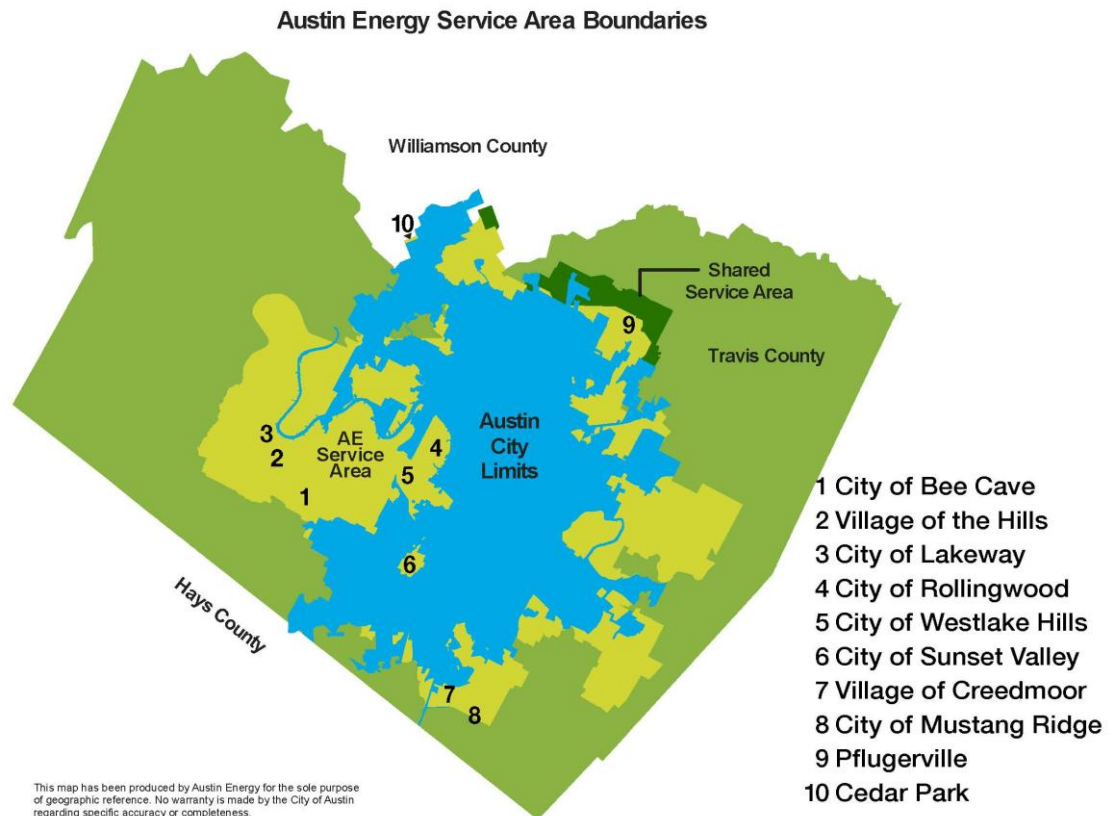


## Austin Energy Rate Analysis and Recommendations Summary Report

Austin Energy has provided electric services to Austin and its surrounding communities for over 115 years. Austin Energy (“AE”) is a department of the City of Austin and operates as a separate enterprise fund. The utility provides service to more than 400,000 customers and a population of almost one million, making it the ninth largest municipally owned electric utility in the United States. The Austin City Council (“Council” or “City Council”) is responsible for setting AE’s retail electric rates. Additionally, the Electric Utility Commission (“EUC”) reviews and makes recommendations to the City Council regarding utility rates, policy, spending, and programs.

The AE electric system serves a 437 square mile area. The area includes Austin and other portions of Travis and Williamson counties. Communities served by AE include the municipalities of Bee Cave, Cedar Park, Lakeway, Mustang Ridge, Pflugerville, Rollingwood, Sunset Valley, Village of the Hills, and Westlake Hills. Approximately 14.5 percent of AE’s customers reside outside Austin’s city limits. Figure 1 is a map of AE’s service territory.

**Figure 1**  
**Austin Energy Service Territory**



Austin Energy contributes to the quality of life in our community by providing the vital service of electricity, employing over 1,700 people, and supporting community events and city services. Austin Energy's mission statement provides a guide for the utility as it strives to provide the highest quality service to its customers in a manner that reflects the community's values and needs.

***Austin Energy Mission Statement:*** *To deliver clean, affordable, reliable energy, and excellent customer service.*

As an electric utility, AE serves as a generator, or producer, of electric power. It performs electric delivery services as a transmission owner and operator and as a distribution company. Transmission refers to the high-voltage electric system that transfers power from generating plants to the distribution system. Distribution refers to the low-voltage electric system that delivers electricity directly to customers. Austin Energy also operates billing and collection systems as well as a customer call center to serve its customers.

Austin Energy has effectively designed and managed an electric system and portfolio of power generation resources to meet the growth and demand for electricity in its service territory and has developed programs that support environmentally responsible initiatives and new customer needs. Austin Energy continues to be recognized as a progressive electric utility that offers many unique, beneficial services to its customers, including some of the most successful renewable energy and energy efficiency programs in the United States.

## Rate Review Need

An assessment of AE's financial information and the cost to serve customers concluded that AE's total revenue requirement is about \$1.1 billion. The utility requires an additional \$131.9 million in annual revenue, representing a 13.1 percent average increase in revenues. Approximately \$20 million of the amount AE needs to collect from its customers to meet the total revenue requirement can be directly traced to growth in the cost of serving large industrial customers currently on the long-term contract rates. These contracts expire in May 2015, so the associated revenue requirement has been excluded. Other residential and commercial customers will not be asked to pay the long-term customer portion of the increased revenue requirement. The adjusted revenue requirement is \$111.1 million or a 11.1 percent increase.

The utility has not increased its base electric rates (which excludes the fuel charge) since 1994. Over time, the utility's rate structures have become outdated and no longer represent the way the utility incurs costs or the costs to serve different customer types. Costs for commodities and personnel have risen, and the utility has grown by more than 100,000 customers. Austin Energy recognized the need to increase its rates initially in 2006, but a combination of cost control, drawing down utility reserves, and market sales and revenues from abnormally hot weather delayed the action until now. The increased costs to serve customers means that the utility is currently under-

collecting the revenues it needs to operate effectively, and rate adjustments are necessary at this time to ensure the continued financial strength of the utility.

Part of the reason that AE has had difficulties meeting its revenue needs recently is that growth in AE's electric sales has trended downward from average growth of 6 percent a year between 1994 and 2000 to 1.8 percent from 2001 to 2009. The decline in the annual growth rate is attributed to changing customer demographics, the current economic downturn, and reduced customer consumption due to AE's successful implementation of energy efficiency programs and promotion of conservation which have helped keep rates stable for the last 17 years. Low load growth is anticipated well into the future. Although load growth is expected to remain low, the costs of operating the utility continue to rise at a steady rate, placing financial stress on the utility.

Additionally, the price of goods and services related to providing electric services has increased since 1994, and the utility has added a number of new business functions and expanded others. While AE customers have experienced the benefits of many new services and programs for several years, the increased costs of these services have been largely unaccounted for in the current rates. New programs and services that have been added, in no particular order or representation of magnitude, include solar rebates, the GreenChoice<sup>®</sup> renewable energy program, a new unit to coordinate AE generation scheduling activities with the state grid operator, the key accounts function, and a compliance program needed to meet federal grid reliability requirements, among others. Austin Energy has expanded its energy efficiency programs, Customer Assistance Program for low-income and other disadvantaged customers, and several programs to build and maintain the smart grid and related communication equipment improving system reliability.

To date, about 800 MW of new electric power generation has been offset through one of the most comprehensive and successful energy efficiency and load shifting programs in the nation. Smart meters have been installed at no direct cost to AE customers, while many electric utilities in Texas have placed a surcharge on customer electric bills to account for these costs. Since AE last set base rates, it has brought online the Sand Hill Energy Center, a 600 MW natural gas-fired facility with highly efficient combined-cycle units and peaking units to help meet demand during the hot summer months. These new generation resources, which helped meet the utility's energy needs after the Holly Power Plant closure, were funded by AE with no base rate increase.

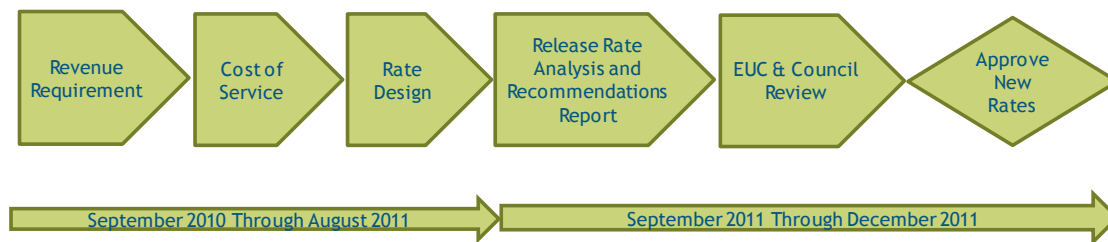
## Overview of Rate Review Process

In early 2010 AE began planning for a review of its electric rates, and in September 2010 AE began the formal rate study. Over the course of the following year, AE, with the assistance of ratemaking experts, evaluated its current rates, completed a cost of service study, gathered customer input on rates issues, and designed new rates. This report is the product of that year of study and public involvement. The proposed rates will now be reviewed by the utility's oversight bodies, the EUC and the City Council, and the Council will ultimately set new rates.

### Analytical Process

Austin Energy's rate review process is illustrated in Figure 2. This is followed by a description of the primary steps in the analytical process and an overview of AE's public involvement process as well as communications during the study.

**Figure 2.**  
**Rate Review Process Timeline**



#### **Step 1 – Determine Utility Revenue Requirement**

The term “revenue requirement” refers to the utility’s total cost to provide reliable service and achieve the utility’s strategic objectives and is the amount of revenue that the utility must recover through rates.

#### **Step 2 – Prepare Cost of Service**

A cost of service study was performed to determine how much it costs the utility to provide electric services to different customer types. Each customer class has different rates because the cost to provide electric service to different customer types varies.

#### **Step 3 - Design Rates**

After completing the cost of service analysis, AE designed new electric rates to achieve the utility’s revenue requirement with consideration of the cost of service results, AE’s rate review objectives described below, and public input.

#### **Step 4 – Prepare and Submit Rate Analysis and Recommendations Report**

Austin Energy’s Rate Analysis and Recommendations report is a complete technical compilation of the rate review, including the full cost of service study and other relevant information pertaining to the analyses that support the proposed rates.

#### **Step 5 – EUC and City Council Review**

The utility’s recommendations and findings are being presented to the EUC for review during a series of public meetings.

**Step 6 – Implement New Rates**

After completion of the five steps described above and upon final approval of rates by the Council, new rates will be incorporated into the AE billing system and implemented beginning on a date approved by the City Council.

**Public Involvement Process and Communications**

A critical component of this rate review process is to keep customers informed and provide avenues for AE to receive input from its diverse customer base. Austin Energy has and will continue to update its customers regularly about the rate review process through a dedicated rate review website ([www.rates.austinenergy.com](http://www.rates.austinenergy.com)) and AE's main website, customer newsletters included with monthly customer utility bills, e-mail and social media services, and the provision of educational materials to customers at public meetings. Austin Energy will also be making presentations on the proposed rates to various community organizations throughout the public review process to keep customers informed and provide an opportunity for feedback.

**Rate Review Public Involvement Committee**

In December 2010, AE organized a 14-member committee of citizens representing all segments of AE's customer base that would become educated about utility issues and provide feedback to AE as it developed its recommendation. PIC meetings were held monthly from January 2011 through June 2011 and were open to the public. The goals of the PIC meetings were to educate PIC members and interested members of the community about AE's rate review, to share perspectives amongst the members, and to provide AE staff with the opportunity to receive input from this representative committee on preliminary study results and policy considerations. Austin Energy provided educational and background information in the form of white papers and presentations on specific rate topics. Table 1 details the topics that were presented to the PIC.

**Table 1.**  
**Rate Review Public Involvement Committee Meeting Schedule**

Meeting	Meeting Date	Meeting Topic
1	January 13, 2011	Introduction to AE's Rate Review Process
2	February 8, 2011	Customer Classes and Rates Philosophy
3	March 2, 2011	Revenue Requirement and Cost of Service
4	April 6, 2011	Residential Rate Structures
5	May 4, 2011	Commercial and Industrial Rate Structures
6	June 1, 2011	PIC Feedback and Discussion

Discussions during PIC meetings focused on the topics identified above, and PIC members had the opportunity to submit written questions and comments on the rate topics throughout the process and verbally at the meetings. Following each PIC meeting, a written summary of the meeting was provided to document progress and act as a resource for members of the public who followed the process.

All materials provided to and received from the PIC are available at [www.rates.austinenergy.com/rrresources](http://www.rates.austinenergy.com/rrresources). This includes White Paper #6 – PIC Summary Report which summarizes information provided to the PIC and feedback received. The PIC feedback was taken into consideration in the development of AE's rate proposal. A complete compilation of the materials prepared for the PIC, as well as summaries of the discussions and responses to questions submitted by the committee members, has been made available to the EUC and City Council and is available to the public on the rate review website.

## Rate Review Objectives

In planning for and conducting this rate review, AE developed a set of objectives that helped guide staff throughout the study period. These objectives are centered around maintaining the financial well-being of our community-owned utility. A financially sound utility enjoys low cost for borrowing money and faces fewer risks in a changing economy. This keeps costs rates affordable in the long-term for the utility's customers. Specific objectives of this rate review are to:

- (1) Ensure long-term financial strength by setting rates that meet AE's revenue requirement and achieve sustained revenue stability;
- (2) Improve fixed cost recovery to maintain sufficient revenues into the future;
- (3) Align rates with AE's Strategic Plan by designing rates that encourage efficient energy use and meet changing customer needs by supporting technologies like solar electricity generation and electric vehicles; and
- (4) Update rates and rate structures to distribute costs fairly among customer classes and encourage efficient energy use.

These objectives are described in more detail below.

### (1) Ensure Long-Term Financial Strength

Austin Energy is an important resource for the community and, accordingly, one of the City's highest priorities is to ensure the utility's financial integrity and competitive standing. Austin Energy is the largest City of Austin department, with revenues of over \$1 billion annually and over \$3.5 billion in assets. In order to maintain financial strength over the long run, AE must generate sufficient revenue through rates to meet its expenditures. Austin Energy also needs to stabilize reserves to ensure future funding for needed capital expenditures and adequate funds to maintain liquidity in the potentially volatile fuel and power markets.

The rate review process itself is intended to comply with the following AE financial policy:

*Electric rates shall be designed to generate sufficient revenue, after consideration of interest income and miscellaneous revenue, to support (1) the full cost (direct and indirect) of operations including depreciation, (2) debt service, (3) General Fund Transfer, (4) equity*



*funding of capital investments, (5) requisite deposits of all reserve accounts, (6) sufficient annual debt service requirements of the Parity Electric Utility Obligations and other bond covenant requirements, if applicable and (7) any other current obligations.*

Establishing rates that fully recover the utility's revenue needs is an important factor for determining an electric utility's bond ratings. A utility's bond ratings assess its credit worthiness. As with credit scores for individuals, a bond rating influences the interest rate at which an entity must repay its debt. Therefore, a higher credit rating keeps borrowing costs lower and, in turn, rates lower. Currently, AE has established relatively strong bond ratings, including an AA- rating by Fitch, Inc. Rating agencies have pointed to AE's competitive rates, diverse power supply, consistent efforts to pay down debt, and sound financial record to account for its strong ratings. The evaluation factors considered by bond rating agencies and investors for electric utilities are of mutual importance to AE and its customers, including:

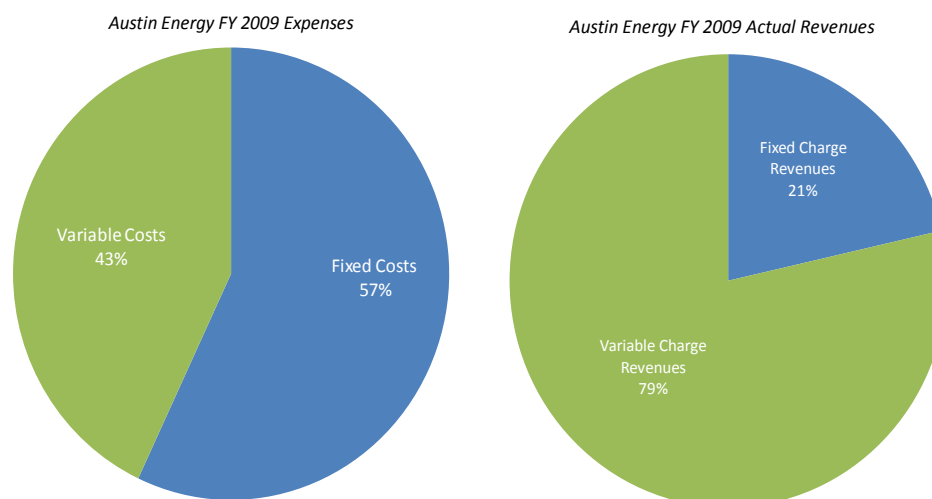
- Cost recovery certainty;
- Comparative rates and competitive position as key measures of a utility's financial health;
- Sufficient future earnings and fixed charge coverage;
- Risk mitigation strategies;
- Sound and predictable management performance and strategies;
- Compliance with debt service coverage and other bond requirements and financial policies;
- Financial flexibility to change with the market and industry including new risks affecting the availability and social acceptability of fuels used; and
- Willingness to adjust rates to maintain sound financial position.

## **(2) Improve Fixed Cost Recovery**

Rising costs and the decline in the growth of electric sales underscore another fundamental issue facing AE: an existing electric rate design that no longer fully recovers the utility's fixed costs. Fixed costs are costs that do not vary with customer usage. The construction cost and ongoing operations and maintenance of power plants, power lines, and substations as well as customer service costs are examples of fixed costs. Larger commercial customers, whose power use peaks above a certain level, pay an additional charge on their electric bill (called a "demand charge") for their share of much of the fixed costs incurred to serve them. Small commercial customers and residential customers do not currently pay a demand charge. Instead, a charge recovering a portion of fixed costs (called the "customer charge") is currently included in their base electric rate. The remaining fixed costs not recovered through the customer charge must be currently recovered through a variable energy charge. In an environment of steady sales growth—as in the late 1990s—AE could be assured of full recovery of its fixed costs through the variable energy charge. However, in an environment of uncertain growth, AE can no longer depend on variable energy sales to

recover fixed costs. As illustrated in Figure 3, in FY 2009, fixed costs represented 57 percent of AE's budget, but only 21 percent of revenues received were recovered through fixed charges. Therefore, the remainder of these costs were under-recovered through the variable energy charge.

**Figure 3.**  
**Austin Energy's Fixed Cost Challenge: Cost Structure and Cost Recovery**



Improving fixed cost recovery is a major objective for AE. Austin Energy has established a variety of programs that are consistent with its strategic objectives of supporting energy efficiency and conservation as well as customer-owned distributed power generation (e.g., solar PV) and it has established goals of achieving 800 MW of demand reduction through energy efficiency and 200 MW of solar installed (with some portion being customer-owned) by 2020. Since these programs are intended to lower a customer's net energy usage, fixed costs recovered through the variable energy charge may not be fully recovered from customers who participate in these programs or who lower their energy usage through other means. Over time, AE will face an even greater challenge recovering its fixed costs as AE makes progress in achieving these strategic goals.<sup>1</sup>

To compliment and align AE's rates with its strategic goals, the proposed rate design has been developed to improve fixed cost recovery. The strategy to address the fixed cost recovery problems is: 1) to increase or establish fixed monthly customer charges for all customers at or near the fixed amount of those costs to ensure recovery of the fixed customer service costs and 2) to implement a fixed monthly electric delivery

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<sup>1</sup> The fixed cost recovery problem is unique to the electric utility industry. Like many industries, an electric utility must install fixed infrastructure to provide core services. But at the same time, no other industry actively *discourages* customers from consuming its product—through energy efficiency, conservation, and distributed generation like solar PV. The more successful the utility is at discouraging energy use, the more exaggerated the fixed cost recovery problem.

charge for all customers to ensure recovery of the fixed electric system costs that all customers benefit from by being connected to the electric grid. It should be noted that while some of these charges are new for some customers, these costs would otherwise be recovered in existing charges. For example, the addition of an electric delivery charge means a proportionate reduction in the distribution costs otherwise embedded in the energy charge.

### **(3) Align Rate Design with Strategic Plan**

In alignment AE's mission to deliver clean, affordable, reliable energy and excellent customer service, AE adopted its Strategic Plan in 2003 (with updates as recent as 2011) which established a set of strategic objectives to help AE prepare for the future by reducing financial risk, providing excellent customer service, and acknowledging environmental issues and the importance of energy efficiency and renewable energy programs. In 2010, the City Council adopted AE's *Resource, Generation, and Climate Protection Plan to 2020* ("Resource Plan") which serves as a resource planning guide to bring together demand and energy management strategies over the planning horizon. The Resource Plan establishes clean energy goals, recommits to providing affordable electricity to customers, and continues to stress the electricity reliability and improved customer service targets set forth in AE's Strategic Plan. Additionally, in February 2011 Council approved an affordability goal to accompany the Resource Plan. The affordability goal requires that AE operate so as to limit all-in rate (base, fuel, riders, etc.) increases for residential, commercial, and industrial customers to 2 percent or less per year. In addition, the goal is to maintain AE's rates in the lower 50 percent of Texas rates overall. The affordability goal will be effective upon implementation of AE's new rates following this rate review.

Austin Energy's key strategic objectives and most recent targets for each objective are summarized below.

- Risk Management:
  - Maintain financial integrity; and
  - Reduce carbon dioxide by 20 percent below 2005 level by 2020.
- Excellent Customer Service:
  - Improve customer and employee satisfaction;
  - Provide exceptional system reliability; and
  - Create and sustain economic development.
- Energy Resources:
  - 800 MW of energy efficiency by 2020;
  - 35 percent of energy from renewable resources by 2020; and
  - 200 MW of installed solar generation capacity by 2020.

### **(4) Update Rate Structures and Establish Fair Rates**

Since the last rate review in 1994, the utility's rate structures have become outdated and no longer represent the way the utility incurs costs or the costs to serve different customer types, nor do they recognize changes in the broader electric utility industry that have made AE's current rate structures outdated. New environmental concerns, increased regulation, and new technologies are requiring electric utilities to develop and implement non-traditional approaches to rate design and the provision of electric services to ensure sustainability into the future and meet new customer needs.

Addressing the fixed cost recovery problem is one way in which AE is updating its rate structures to establish fair and equitable rates. Another way in which AE is trying to accomplish this objective is by completing an unbundled cost of service study that allocated the costs of specific products and services to each customer class. An unbundled approach to pricing helps ensure full cost recovery, provides greater transparency in pricing, and provides the opportunity to develop more clear price signals for customers to encourage efficient use of resources (e.g., energy efficiency). Unbundling is also intended to accommodate new products and services and support the utility's energy efficiency and customer-owned renewable generation goals.

The cost of service analysis performed by AE for this study determined how much it costs the utility to provide electric services to different customer types. Austin Energy's proposed rates are designed to better align customer rates and the rate structures with the cost to serve customers while meeting AE's strategic objectives. Aligning rates to the extent possible with cost of service ensures that customers pay their fair share for receiving electric services while minimizing inter-class subsidization. The proposed new rate structure is intended to be both financially sustainable and provide the flexibility to meet current and future needs of customers.

## **Rate Review Findings and Recommendations**

The findings and recommendations of this rate review are based upon consideration of AE's rate review objectives, the cost of service and rate design analysis detailed in the Rate Analysis and Recommendations Report, and input from the public, AE staff, and ratemaking experts.

### **Revenue Requirement**

The first step in the rate review process was the determination of the total utility revenue requirement for Test Year 2009 to represent the utility's normalized expenses and investment required to provide reliable electric services to customers and fulfill the utility's strategic objectives. To ensure that rates adequately recover costs, the revenue requirement represents historical expenditures, capital improvement requirements, and customer loads adjusted for current known and quantifiable changes. An historical fiscal year (FY 2009) was chosen and then adjusted based on "known and measurable" criteria to reflect typical or expected future financial and operating conditions of the utility. This adjustment resulted in a "Test Year" that represents the total costs to operate AE during a typical year.

As detailed in Table 2, the Total Test Year Revenue Requirement is the sum of total operation and maintenance (“O&M”) expenses, depreciation and amortization, debt service, General Fund transfer, reserve margin, and other expenses less non-rate revenue.<sup>2</sup> Given this calculation, the Test Year Revenue Requirement is \$1,136,020,803.

**Table 2.**  
**Test Year 2009 Revenue Requirement**

Item	Fiscal Year 2009 (\$)	Test Year 2009 (\$)
<b>Operation &amp; Maintenance Expenses</b>		
Production (\$)	547,333,150	543,116,051
Transmission (\$)	66,913,260	77,819,322
Distribution (\$)	39,157,987	49,042,519
Customer (\$)	67,341,767	45,656,010
A&G (\$)	<u>135,795,362</u>	<u>104,400,808</u>
Total Expenses (\$)	856,541,526	820,034,711
<b>Depreciation &amp; Amortization of CIAC (\$)</b>	108,990,890	117,214,512
<b>Debt Service (\$)</b>	176,919,813	168,070,290
<b>General Fund Transfer (\$)</b>	95,000,000	103,000,000
<b>Margin (\$)</b>	26,277,668	8,957,418
<b>Other Expenses (\$)</b>	16,358,459	3,552,750
<b>Other Non-Rate Revenue (\$)</b>	<u>(123,691,950)</u>	<u>(84,808,878)</u>
<b>Total Revenue Requirement (\$)</b>	<b>1,156,396,406</b>	<b>1,136,020,803</b>
 <b>\$/MWh</b>	 95.75	 96.16
 <b>Test Year Rate Revenue (\$)</b>	 1,054,881,935	 1,004,133,897
<b>Deficiency (\$)</b>	101,514,471	131,886,905
<b>Deficiency (%)</b>	9.6	13.1

Fiscal Year 2009 rate revenue was calculated based on AE’s existing rates utilizing the same normalized customer sales used in the Test Year Revenue Requirement. Table 2 shows that about \$1 billion would be expected to be generated from AE’s existing rates, resulting in a short fall of \$131,886,906 (or 13.1 percent). Although this study shows that the utility would experience a 13.1 percent shortfall of revenues in the Test Year, the utility is only requesting an increase in base electric rates of \$111,135,775 or an 11.1 percent increase in revenues. This is because 17 of AE’s largest commercial and industrial customers (contract customers) are currently under contract terms which

<sup>2</sup> The reserve margin is calculated by determining the difference between the cash sources (depreciation expense and investment income) and cash uses (capital improvements plus required contributions to reserves).

do not allow the utility to adjust their rates until June 2015. Based on this study, these customers are collectively under cost of service by about \$20 million a year. Table 3 summarizes the utility's total revenue, revenue need, and requested increase in revenues for 2012.

**Table 3.**  
**Total Revenue and Revenue Needed**

Measure	Test Year 2009
Total Revenue Requirement (\$)	1,136,020,803
Test Year Rate Revenue Under Existing Rates (\$)	1,004,133,897
Needed Increase in Revenues (\$)	131,886,906
Needed Increase in Revenues (%)	13.1
Needed Increase in Revenues From Contract Customers (\$)	20,751,131
Requested Increase in Revenues (\$)	111,135,775
Requested Percent Increase in Revenues (%)	11.1

The results of the Test Year Revenue Requirement show that AE is currently significantly under-recovering revenues needed to meet the costs required to serve its customers. This is expected as AE has not increased its base rates since 1994. Continued failure to meet the utility's revenue requirement would threaten the financial strength of the utility and its ability to fulfill its strategic objectives. Table 4 summarizes AE's recommendations associated with the utility's revenue requirement.

**Table 4.**  
**Summary of Recommendations Associated with AE's Revenue Requirement**

Austin Energy Staff Recommendations
<b>Revenue Requirement Methodology</b>
1) Revenue requirement should be developed using the cash approach methodology
<b>Achieve Total Utility Revenue Requirement</b>
2) Revenue requirement as established for Test Year 2009 is sufficient to meet AE's operating costs and capital requirements consistent with its business objectives. Therefore, revenue requirement as proposed should be adopted.

## Consolidation of Customer Classes

A customer class is a grouping of customers with similar characteristics. In the electric utility industry, customer classes exist because the cost to serve different customers can vary substantially depending on a customer's service needs and the way

in which the customer consumes electricity. For example, customers with large loads (i.e., large commercial and industrial) tend to use energy in larger amounts than residential and small commercial customers and more consistently during the day which impacts the cost to serve these customers. Correspondingly, the cost to deliver electricity to a very large commercial or industrial customer is different from the cost to deliver electricity to a residential home. The industrial customer may receive electricity from a single high-voltage line that extends directly from a substation while a home receives its electricity from a series of lines that start from a substation and eventually reach the home.

Typically, customers are grouped together into classes based upon common service requirements and electricity usage characteristics. Because the cost to serve customers with shared characteristics tends to be similar, customer classes were formed to bill groups of customers in a common manner. A utility must evaluate its customer classes and make any necessary adjustments to its customer classes before completing the cost of service study. This ensures that the cost of service analysis produces accurate and meaningful results.

Since AE's 1994 rate review, the number of customer classes and price offerings within customer classes has expanded and become increasingly complex. Currently, AE supports 24 distinct customer classes and nearly 90 unique price offerings. After reviewing the service requirements and electricity usage characteristics for customers within each of the existing 24 customer classes, AE and its rate consultants determined that many of these customer class distinctions were unnecessary and not consistent with industry best practices for designing customer classes.

Austin Energy evaluated an extensive amount of customer data, including billing data and load research, to redesign customer classes based upon industry best practices. Austin Energy is recommending that customer classes be consolidated from 24 to 9 customer classes to better recognize the underlying cost of service for each class, to create meaningful cost of service differentials between customer classes, and to better align with the best practices of other Texas electric utilities. This consolidation will simplify and improve the understandability of AE's rates. Table 5 summarizes the proposed recommendations associated with AE's customer classes and Table 6 provides customer type examples for each proposed customer class.



**Table 5.**  
**Summary of Recommendations Associated with AE's Customer Classes**

<b>Austin Energy Staff Recommendations</b>
1) Consolidate from 24 to 9 customer classes.
2) Remove worship facilities from Residential customer class and group into appropriate Secondary Voltage customer class.
3) Remove City, School, and State customer classes and rate classes and group into appropriate Secondary Voltage or Primary Voltage customer class.
4) Lower the break point for non-demand versus demand commercial customers from 20 kW to 10 kW.
5) Establish a break point for Secondary Voltage customers for those with demand greater than or equal to 10 kW and less than 50 kW and those above 50 kW.
6) Establish a break point for Primary Voltage customers for those with demand less than 3 MW, those greater than or equal to 3 MW and less than 20 MW, and those greater than or equal to 20 MW.

**Table 6.**  
**Proposed Customer Classes - Example Customer Types**

<b>Customer Class</b>	<b>Example Customer Types</b>
Residential	Home, Apartment, Condo
Secondary Voltage <10 kW	Small Business, Billboard, ATM, School Portable Buildings
Secondary Voltage 10 -<50 kW	Small Office, Mid-Sized Retail Business, Restaurant, Nail Salon, Small School Building, Daycare, Auto Repair Shop, Small Worship Facility, Water/Wastewater Facility
Secondary Voltage ≥50 kW	Large Office, High-Rise Building, Big Box Retail, Medium-Large School or Government Building, Hotel, Soup Kitchen, Medium-Large Worship Facility, Medium Water/Wastewater Facility
Primary Voltage <3 MW	Large Office, Large Grocery, Big Box Retail, Large School or Government Building, Small Industrial Facility, Light Manufacturing Facility, Large Water/Wastewater Facility
Primary Voltage 3 MW - <20 MW	Large Manufacturing, University, High Tech Facility, Large Industrial Facility, Large Government Building, Hospital, Data Center
Primary Voltage ≥20 MW	Large Industrial Facility, Semi-Conductor Facility
Transmission Voltage	Large Industrial Facility
Lighting	Street Lighting, Security Lighting, Parking Lot Lighting, Ballpark and Stadium Lighting

This consolidation of customer classes requires that certain customers be assigned to new customer classes based on their service characteristics and level of demand on the system (in kilowatts, or kW). In some instances, moving a customer into a new customer class may actually lower their electric bill while in other cases a customer's electric bill may increase. For this reason, bill impacts under the proposed new rates for all existing customer classes are included in the Rate Analysis and Recommendations Report.

## Cost of Service

After determining the utility's revenue requirement and making adjustments to the customer classes, a cost of service analysis was performed to determine how much it costs the utility to provide electric services to each proposed customer class. The cost of service analysis helps the utility determine what charges and prices, or rates, to apply to each customer class or rate class.

The cost of service analysis distributes the utility's revenue requirement by applying methodologies for allocating costs commonly used throughout the industry. Various calculation methodologies can be used in a cost of service study to determine the allocation of costs to different customer classes. Table 7 summarizes AE's recommendations associated with the cost of service study completed for this rate review.

**Table 7.  
Summary of Recommendations Associated with AE's Cost of Service Study**

<b>Austin Energy Staff Recommendations</b>	
<b>Cost Allocation Methodology</b>	
1) Cost of service should be conducted using an unbundled embedded cost methodology.	
<b>Production Cost Allocation</b>	
2) Allocation of production demand-related costs should be based on the Average and Excess Demand ("AED") method.	
3) Allocation of production energy-related costs should be based on the Net Energy for Load ("NEFL") method.	
<b>Transmission Cost Allocation</b>	
4) Allocation of transmission demand-related costs should be based on the Electric Reliability Council of Texas Four Coincident Peak ("ERCOT 4CP") method.	
<b>Distribution Cost Allocation</b>	
5) Allocation of distribution demand-related costs should be as follows: <ul style="list-style-type: none"> <li>▪ Substations, poles, conductors, and load dispatch should be allocated based on the 12 Non-Coincident Peak ("12 NCP") method.</li> <li>▪ Transformers and services should be allocated based on the Sum of Maximum Demands method.</li> </ul>	
6) Allocation of customer-related costs for meters should be allocated based on weighted number of customers.	
7) Distribution direct assignment costs are related to street lighting.	
<b>Customer Cost Allocation</b>	
8) Allocation of customer service function costs should be as follows: <ul style="list-style-type: none"> <li>▪ Customer service, customer accounting, and meter reading should be allocated based on the number of customers.</li> <li>▪ Uncollectible accounts and key accounts should be allocated based on a weighted number of customers.</li> </ul>	

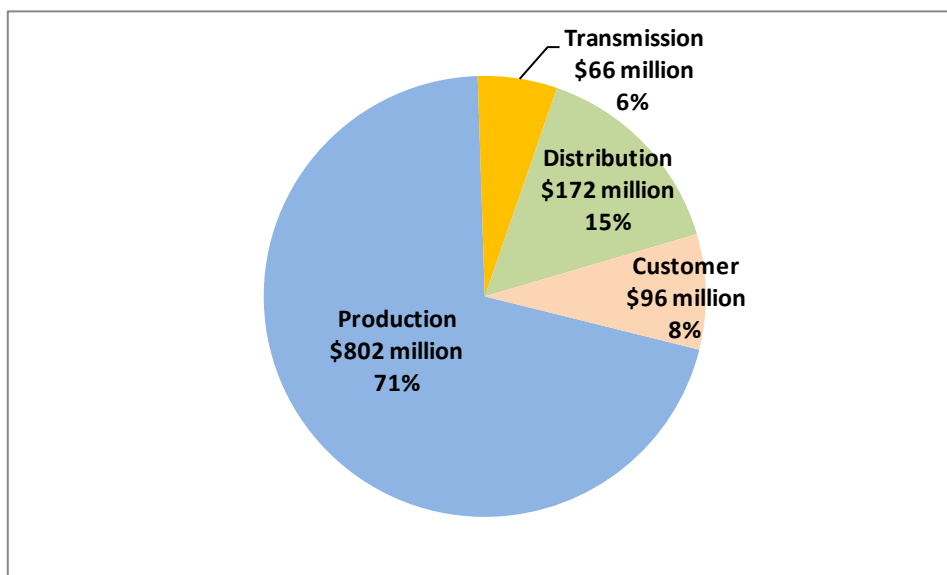
The fully allocated cost of service study shows how much a customer class is over-paying or under-paying for electric service. The results of the cost of service analysis are summarized in this report with more detailed information provided in the Rate Analysis and Recommendations Report.

The first step in AE's unbundled cost of service analysis was functionalizing the revenue requirement into the various utility functions (production, transmission, distribution, and customer service), a process that effectively unbundles these costs, and then breaking down costs within each function. These functions represent the products and services provided by the utility. In theory, each utility function faces unique market environments, business risks, and objectives. The results of this unbundling are summarized in Table 8 and illustrated in Figure 4.

**Table 8.**  
**Unbundled Test Year Revenue Requirement**

Function	Amount (\$)	Average \$/MWh Sold	% of Total
Production	801,730,829	67.86	70.6
Transmission	65,915,251	5.58	5.8
Distribution	172,451,648	14.60	15.2
Customer Service	<u>95,921,862</u>	<u>8.12</u>	<u>8.4</u>
<b>Total</b>	<b>1,136,020,803</b>	<b>96.16</b>	<b>100.0</b>

**Figure 4.**  
**Test Year Revenue Requirement by Function**



Once costs are functionalized, the underlying factors that drive these costs are identified through cost classification. Most utility costs are associated with the number of customers served and their demand and energy requirements. Cost

classification results are summarized by category in Table 9. Production costs are classified as demand-related and energy-related. All transmission costs and most distribution costs are classified as demand-related. A small portion of distribution costs related to meters are classified as customer-related and an additional amount is directly assigned to applicable lighting rate classes. All customer service costs are classified as customer-related.

**Table 9.**  
**Cost Classification of Test Year Revenue Requirement**

Description	Demand	Energy	Customer	Direct Assignment	Total
Production (\$)	331,562,101	422,551,719	0	47,617,009	801,730,829
Transmission (\$)	65,915,251	0	0	0	65,915,251
Distribution (\$)	145,509,111	0	17,108,086	9,835,657	172,452,854
Customer Service (\$)	0	0	95,921,868	0	95,921,868
Total Cost of Service (\$)	542,986,463	422,551,719	113,029,954	57,452,666	1,136,020,803
Percentage of Total (%)	47.8	37.2	9.9	5.1	100.0

The final step in the cost of service analytical process was allocating the classified costs to each customer class based on the class contribution to total system costs. Detailed cost of service results by customer class using the allocation methodologies summarized in Table 7 are presented in Table 10. Table 10 summarizes the total cost of service results by customer class compared to estimated Test Year revenues under AE's existing rates (more detailed results are presented in the Rate Analysis and Recommendations Report). Table 10 also indicates the shortfall in revenue needed from each customer class, or the percentage rate increase needed to meet class cost of service. Overall, the indicated shortfall, consistent with the shortfall of the Test Year revenue requirement, is 13.1 percent of revenue needs, or \$1,136,020,803. Over 80 percent of the revenue shortfall is attributed to the Residential customer class, which the utility is under-recovering in the Test Year by approximately \$107 million, or 29 percent below cost of service. Almost 8 percent of the shortfall is attributed to the Secondary Voltage <10 kW customer class which the utility is under-recovering from by approximately \$10 million. With the exception of Primary Voltage <3 MW and Transmission Voltage, all other customer classes are also currently below their cost of service.

**Table 10.**  
**Rate Increase Needed to Meet Cost of Service by Customer Class**

Customer Class	Cost of Service <sup>(1)</sup>	Projected Revenue Under Existing Rates <sup>(2)</sup>	Revenue Deficiency	Increase Needed to Meet Cost of Service
	(\$)	(\$)	(\$)	(%)
Residential	480,335,595	373,304,903	107,030,692	28.7
Secondary Voltage <10 kW	46,438,756	36,421,201	10,017,555	27.5
Secondary Voltage 10 - <50 kW	94,426,817	91,141,558	3,285,259	3.6
Secondary Voltage ≥50 kW	352,218,949	349,970,012	2,248,936	0.6
Primary Voltage <3 MW	29,189,906	30,377,964	(1,188,058)	-3.9
Primary Voltage 3 - <20 MW	51,704,287	47,083,898	4,620,389	9.8
Primary Voltage ≥20 MW	62,622,337	57,555,036	5,067,301	8.8
Transmission Voltage	14,194,875	15,816,915	(1,622,040)	-10.3
Service Area Street Lighting	N/A	N/A	N/A	N/A
AE-Owned Private Outdoor Lighting	3,860,477	1,955,348	1,905,130	97.4
Non-Metered Lighting	176,279	131,138	45,141	34.4
Metered Lighting	<u>852,526</u>	<u>375,924</u>	<u>476,601</u>	<u>126.8</u>
<b>Total</b>	<b>1,136,020,803</b>	<b>1,004,133,897</b>	<b>131,886,905</b>	<b>13.1</b>

Notes:

1. Reflects the AED method for allocating production costs and excludes CAP funding.

2. Adjusted for Test Year 2009 fuel.

The customer class specific cost of service can be further disaggregated into specific charge types (e.g., into customer, energy, and demand components by customer class). Table 11 provides results on a unit cost basis for each type of charge that is being proposed by AE in this rate review. This information is used as the primary input to develop rates. Strict cost of service-based charges would reflect the unit costs as shown for each customer class in Table 12. In consideration of AE's rate review objectives, AE is recommending adjustments from strict cost of service results in two ways: 1) AE is proposing adjusting the total revenue requirement by customer class so that the Residential, Secondary Voltage <10 kW, and Lighting customer classes pay 95% of cost of service and all other classes pay 104% of cost of service and 2) some proposed charges are set at or below cost of service to mitigate disproportionate rate increases for customers within each customer class such as low energy users in the residential customer class and low load factor customers in some commercial and industrial customer classes.

**Table 11.  
Unit Cost of Service by Customer Class (Excluding Lighting)**

<b>Cost of Service<sup>(1)(2)</sup></b>	<b>Residential</b>	<b>Secondary Voltage &lt;10 kW</b>	<b>Secondary Voltage 10 -&lt;50 kW</b>	<b>Secondary Voltage ≥ 50 kW</b>	<b>Primary Voltage &lt;3 MW</b>	<b>Primary Voltage 3 - &lt;20 MW</b>	<b>Primary Voltage ≥20 MW</b>	<b>Transmission Voltage</b>
<b>Customer Charge</b>								
\$/month	21.69	27.77	30.49	68.79	259.10	2,022.55	2,758.06	1,923.02
<b>Electricity Delivery</b>								
\$/month	14.13							
\$/kW billed		5.25	4.64	4.87	2.71	3.68	3.63	N/A
<b>Energy (¢/kWh)</b>								
Summer	3.818	3.818	3.818	3.818	3.731	3.731	3.731	3.684
Non-Summer	3.573	3.573	3.573	3.573	3.492	3.492	3.492	3.447
<b>Demand (\$/kW billed)</b>								
Summer	6.44	10.77	10.65	11.18	9.93	12.62	12.34	10.17
Non-Summer	5.79	9.60	9.60	10.04	8.94	11.29	11.02	9.09
<b>Community Benefit (¢/kWh)</b>								
Customer Assistance Program	0.065	0.065	0.065	0.065	0.065	0.065	0.065	0.065
Service Area Street Lighting	0.114	0.113	0.088	0.078	0.066	0.062	0.059	0.053
Energy Efficiency Charge	0.301	0.296	0.231	0.206	0.174	0.162	0.156	0.139
<b>Regulatory Charge</b>								
¢/kWh	0.729							
\$/kW billed		2.33	2.44	2.57	2.28	2.93	2.92	2.49

Note:

1. Summer rate period is June through September and non-summer rate period is October through May.

2. Includes the Customer Assistance Program funding.

Table 12 shows proposed revenues by customer class compared to cost of service for each class. The table demonstrates the changes in customer class revenue due to the recommended policy adjustment setting bounds on alignment with cost of service.

**Table 12.**  
**Cost of Service Compared to Class Revenue Target by Customer Class**

Customer Class	Cost of Service (COS) <sup>(1)</sup> (\$)	Proposed Class Revenue Target (\$)	Difference (\$)	Revenue Target as a Percent of COS (%)
Residential	480,335,595	456,325,851	24,009,744	95
Secondary Voltage <10 kW	46,438,756	44,114,521	2,324,235	95
Secondary Voltage 10 - <50 kW	94,426,817	98,576,974	-4,150,157	104
Secondary Voltage ≥50 kW	352,218,949	367,737,239	-15,518,290	104
Primary Voltage <3 MW	29,189,906	30,473,403	-1,283,497	104
Primary Voltage 3 - <20 MW	51,704,287	53,977,832	-2,273,545	104
Primary Voltage ≥20 MW	62,622,337	65,380,102	-2,757,765	104
Transmission Voltage	14,194,875	14,818,365	-623,490	104
AE-Owned Private Outdoor Lighting	3,860,477	3,659,173	201,304	95
Non-Metered Lighting	176,279	167,461	8,818	95
Metered Lighting	<u>852,526</u>	<u>809,927</u>	<u>42,599</u>	<u>95</u>
<b>Total</b>	<b>1,136,020,803</b>	<b>1,136,040,848</b>	<b>-20,045</b>	<b>100</b>

Note:

1. Reflects the AED method for allocating production costs and excludes CAP funding.

## General Rate Design

After determining the utility's revenue requirement and completing the cost of service analysis, AE developed its rate proposal. This final step in the ratemaking process is called rate design. Rates can generally be defined as a system of charges developed to collect desired revenues. The overall objective is to design rates that fully recover the utility's revenue requirement, fairly allocate costs to customers, and align with the utility's strategic objectives. Proposed new rates summarized in this report and detailed in the Rate Analysis and Recommendations Report are based on AE's adopted rate review objectives and are designed to ensure that customers pay fair and equitable rates that remain affordable. Table 13 summarizes AE's recommendations associated with rate design that apply to all customers. This is followed by a short description of each charge proposed under the new rate design.



**Table 13.**  
**Summary of Recommendations Associated with Rate Design Common to All Customers**

<b>Austin Energy Staff Recommendations</b>
1) Unbundle rates and apply a customer charge, electric delivery charge, energy charge, regulatory charge, community benefit charge, and energy adjustment for all customers and an additional demand charge and power cost adjustment for commercial and industrial customers.
2) Expand use of pass-through charges by adding a regulatory charge (transmission and ERCOT fees) and community benefit charge (for Customer Assistance Program, service area street lighting, and energy efficiency) and removing these costs from other existing charges.
3) Recover Test Year fuel-related costs in the energy charge, establish a rate stabilization fund, and apply an energy adjustment in future years to account for future fluctuations in these costs when needed.
4) Shorten summer season from six months (May – October) to four months (June – September) so that stronger pricing signals can be provided during the summer rate period.
5) Establish a goal that no customer class pays greater than 105 percent or less than 95 percent of its cost of service in the implemented new rates, with the condition that the utility achieve its total revenue requirement through implemented rates.
6) Establish a goal to move long-term contract customers into cost of service-based rates upon expiration of existing contracts in May 2015.
7) Maintain an alternative renewable energy rate (GreenChoice®) for customers who wish to pay a premium for renewable energy and use a bundled portfolio approach.
8) Maintain an alternative rate for customers with distributed generation (e.g., solar PV) and credit excess monthly generation based on the utility's determination of the annual value of solar PV to the system.
9) Work with the Pecan Street Project to pilot new rates for customers. Any pilot project implemented must first be approved by the City Council.

Austin Energy's rate redesign is intended to improve customer understanding of specific line items included in the rate. For this reason, AE is proposing re-naming or introducing new line items while maintaining some of the current charges. Each of the charges proposed under this rate design are briefly described below.

### **Customer Charge**

The Customer Charge recovers the cost of metering, billing, collecting, providing customer service, and all other customer-related costs. Austin Energy incurs these customer-related expenses from all customer classes. Austin Energy is proposing applying this charge to all customers on a \$/month basis. Currently, a customer charge is only applied to residential and small commercial customers with demand less than 20 kW. Austin Energy currently recovers these costs from all other customers through the energy charge and demand charge.

### **Electric Delivery Charge**

The Electric Delivery Charge recovers the cost of distribution substations, poles, wires, conductors, and transformers required to deliver power to customers. Austin Energy incurs these distribution function expenses from all customer classes that take service below the transmission level. Austin Energy is proposing to apply this charge to all non-residential customers on a \$/kW basis and for residential customers on a flat \$/month basis. For residential customers and small commercial customers with a demand less than 20 kW, AE currently recovers these costs through the energy charge.

### **Energy Charge**

The Energy Charge recovers the cost of fuel, purchased power, and all other variable costs associated with the production of electricity. Additionally, the energy charge includes the unrecovered fixed costs from the customer, electric delivery, and/or demand charges. This charge is applied on a \$/kWh basis for all customers. Under AE's current rate structure the cost of fuel and purchased power are not included in base rates as these costs are passed through to customers via the Fuel Adjustment Clause. Under the proposed rates, AE has included the full cost of fuel and purchased power in the energy charge for the Test Year, effectively netting the proposed Energy Adjustment to zero for the initial implementation of new rates. The structure of the re-defined Energy Adjustment is described below.

### ***Seasonal Rate Periods***

Currently, AE applies a different energy charge during the summer months and the non-summer months to reflect the increased cost of producing electricity during the summer when demand on the system is higher and less efficient power generation resources are being used, leading to higher energy prices for customers. Currently, the summer rate period is the six months from May through October and the non-summer rate period is November through April. Austin Energy is proposing to redefine its summer on-peak pricing season as a four-month period from June through September. This approach is consistent with the four-month summer period used by the Electric Reliability Council of Texas ("ERCOT") in its allocation of transmission costs and aligns better with AE's seasonal load profile and cost of service results. Therefore, the energy charge varies during the summer rate period (June-September) and the non-summer rate period (October-May) for each customer class.

### **Energy Adjustment**

The Energy Adjustment replaces the current Fuel Adjustment Clause and would be netted to zero at the time new rates are implemented. Under this proposal, the Fuel Adjustment Clause would be re-named the Energy Adjustment in recognition that non-fuel items such as purchased power costs and margins generated from the wholesale power market are included in the calculation. With the approval of the Council, this pass-through charge can be adjusted without conducting a full rate review. The purpose of this type of pass-through charge is to ensure that the utility can fully recover these costs which can be substantial and are often outside of the utility's control. Historically, fuel-related costs have been highly variable year to year due to

the inherent volatility of fuel markets. For instance, AE lowered its Fuel Adjustment Clause by 15 percent at the beginning of 2011 to reflect lower natural gas prices. Fuel and fuel-related costs can rise rapidly due to volatile fuel markets, industry regulation, the needs and desires of the local, national, and international community, and policy decisions.

### **Regulatory Charge**

The Regulatory Charge recovers the regulated cost of AE's portion of statewide transmission expenses as well as all administrative grid operator fees. Currently for residential customers and small commercial customers with demand less than 20 kW, transmission expenses are recovered in the energy charge and the Transmission Service Adjustment Rider. The Transmission Service Adjustment Rider only accounts for the incremental costs associated with new transmission build-out in Texas so the Regulatory Charge would replace this temporary rider. For commercial and industrial customers these costs are currently being recovered through the demand charge and the Transmission Service Adjustment Rider. ERCOT administration fees are currently recovered through the fuel adjustment clause for all customers. Costs recovered through the Regulatory Charge would be removed from their existing charges in this rate design. It is appropriate to separate these costs as a pass-through charge because these costs can vary by year due to regulatory decisions that are beyond AE's control. Additionally, showing these costs separately as a line item on the customer bill improves the transparency of these costs.

### **Community Benefit Charge**

The Community Benefit Charge recovers certain costs incurred by the utility as a benefit to AE's customers and the greater community. This includes costs to support utility bill assistance for Customer Assistance Program participants, service area street lighting, and the cost of AE's energy efficiency, green building, and solar rebate programs (Energy Efficiency Charge). It is appropriate to separate these costs as pass-through charges because these costs can vary by year due to budget needs. Additionally, showing these costs separately as line items on the customer bill improves the transparency of these costs.

### **Demand Charge**

The Demand Charge recovers fixed production costs related to building and financing AE's existing and new power plants. Using a demand charge best reflects the way in which these costs are incurred and provides an incentive for customers to reduce their load by making energy efficiency improvements or controlling their demand. Austin Energy incurs these production costs from all customer classes based upon the demand of each customer. Because applying a demand charge requires metering equipment not currently in place for the majority of residential customers, they are not assessed a demand charge and instead these costs will be recovered in the energy charge as is currently done.

Because all commercial and industrial customers currently have demand meters, AE's rate proposal applies a demand charge for all commercial and industrial customers

regardless of size. This charge is applied on a \$/kW basis. The charge varies by season (summer versus non-summer rate period) to reflect the differences in costs to produce electricity during these time periods. Currently, small commercial customers with demand less than 20 kW are not applied a demand charge. These costs are recovered as a component of their energy charge. For this reason, AE is proposing a 3-year phase-in of the demand charge for commercial customers that are not currently billed demand. This includes Secondary Voltage customers <20 kW, worship customers, and City of Austin accounts.

### **Power Factor Adjustment**

Austin Energy is implementing a power factor adjustment of 85 percent for commercial and industrial customers currently billed a demand charge beginning in October 2011. As part of this rate review, AE is proposing increasing this adjustment to 90 percent upon implementation of new rates. Power factor is a measure of efficiency that reflects the amount of real power delivered and used by a customer. Real power is electricity that can actually be used to perform work such as running a motor or heating an oven. For an equivalent amount of real power, customers with low power factors require more electric current to be delivered by a utility than high power factor customers. The delivery of more electric current results in greater system losses and requires the utility to install additional capacity, at additional cost, throughout the electric system. Therefore, customers with higher power factors have a lower cost to serve, and vice-versa, so this should be reflected in their rates.

### **Residential Rate Design**

The cost of service study indicates that current residential electric rates do not adequately recover the cost to serve residential customers, particularly customers with relatively low usage or average usage. Given the results of the cost of service analysis and consideration of AE's rate review objectives, AE's recommendations associated with residential rate design are summarized in Table 14.

**Table 14.**  
**Summary of Recommendations Specific to Residential Rate Design**

<b>Austin Energy Staff Recommendations</b>
1) Raise the current residential customer charge from \$6 to \$15 and remove this portion of residential customer-related costs from the variable energy charge.
2) Apply an electric delivery charge for residential customers set at \$10 and remove this portion of residential distribution costs from the variable energy charge.
3) Expand existing residential inclining block rate structure from two tiers to five tiers.
4) Implement a time-of-use rate option for residential customers with an initial 2,000 customer enrollment cap.
5) Institute a fee within the Community Benefit Charge that creates a pool of monies to assist Customer Assistance Program participants.
6) Establish a goal that no residential electric bill below 1,500 kWh will increase by more than \$20 a month on average.

The biggest challenge facing AE in redesigning electric rates for residential customers is developing a rate structure that ensures full recovery of the utility's fixed costs for providing electric service and minimizes inter-class subsidization that is not intended to promote energy efficiency and conservation objectives. Fixed costs are expenses incurred by the utility regardless of how much electricity a customer uses. Currently, the only fixed charge that a residential customer pays is a \$6 per month customer charge. The remainder of the utility's fixed costs are recovered through a variable energy rate, based on a customer's monthly electricity consumption. Cost of service results for the Residential customer class show that the fixed costs associated with customer service and electric delivery (distribution) total over \$35 a month per customer. This means that the utility is not fully recovering the fixed costs to serve low-usage customers and high-usage customers are currently subsidizing a portion of these costs for low-usage customers. If AE were to raise its rates to reflect the full cost of service, the customer charge would be increased from \$6 to \$22 and the electric delivery charge would be set at \$14. These costs would then all be removed from the energy charge. Such a rate change would disproportionately impact low-usage customers as these customer would benefit only slightly from a lower energy charge compared to the added cost associated with the higher fixed monthly charges.

In order to move closer to cost of service-based rates, but recognizing the need to mitigate rate shock for low-usage customers, AE is proposing increasing the residential customer charge to \$15 and adding an electric delivery charge of \$10 for a combined total of \$25 per month. Effectively, this serves as a minimum electric bill for residential customers. The remaining fixed customer service and distribution costs not recovered in those charges will be included in the energy charge. This change in residential rate design will improve fixed cost recovery, however low-usage customers will continue to receive some subsidization from higher-usage customers for these costs. The portion of fixed costs currently being recovered through the variable energy charge will be removed from the energy charge, thus offsetting the magnitude of the proposed energy charge.

Austin Energy is also proposing converting from the current two-tier rate structure to a five-tier rate structure to further encourage and reward customers for being energy efficient and conserving energy. Energy efficiency and conservation help keep bills lower for all customers by delaying or offsetting the need for additional power plants and system expansion. Inclining tiers also ensure that those who use the greatest amount of electricity pay their fair share of the extra cost for power generation and system sizing needed to serve them. The five-tier rate structure is designed to support complementary AE programs that provide rebates and other incentives for investing in energy efficiency and solar PV systems. Proposed tiers are for monthly consumption at 0-500 kWh, 501-1000 kWh, 1001-1500 kWh, 1501-2500 kWh, and all monthly consumption greater than 2500 kWh. Table 15 shows the change in the energy blocks from the existing structure to the proposed rate structure. The basis for the setting of the tiers is included in Section 6 of the Rate Analysis and Recommendations Report.

**Table 15.**  
**Existing Two-Tier vs. Proposed Five-Tier Energy Block Rate Design for**  
**Residential Rate Design Supported by the Rate Analysis and Recommendations**  
**Report**

Energy Block	Percentage of Bills (%)	Existing	Proposed
0-500 kWh	32	Tier 1	Tier 1
501-1,000 kWh	33	Tier 2	Tier 2
1,001-1,500 kWh	18	Tier 2	Tier 3
1,501-2,500 kWh	13	Tier 2	Tier 4
> 2,500 kWh	5	Tier 2	Tier 5

Once tiered blocks were determined, AE was able to establish rates for each tier. Table 16 compares AE's current two-tier residential rate structure and existing rates with the proposed five-tier residential rate structure and proposed new rates.

**Table 16.  
Residential Rate Structure and Prices Comparison:  
Existing vs. Proposed Rate Supported by Rate Analysis and Recommendations  
Report**

Name of Charge/Rate	Existing Rates with Adjusted TY Fuel <sup>(1)</sup>	Cost of Service	Proposed 5-Tier Option Supported by Report
<b>Customer Charge (\$/month)</b>	6.00	21.69	15.00
<b>Electric Delivery Charge (\$/month)</b>	n/a	14.13	10.00
<b>Energy Charge (¢/kWh) <sup>(2)</sup></b>			
Summer (June - September) <sup>(3)</sup>			
< 500 kWh	6.948	7.504	5.514
501-1000 kWh	11.218	7.504	9.514
1001-1500 kWh	11.218	7.504	12.014
1501-2500 kWh	11.218	7.504	13.514
>2500 kWh	11.218	7.504	14.514
Non-Summer (October - May) <sup>(3)</sup>			
< 500 kWh	6.948	6.968	4.411
501-1000 kWh	9.418	6.968	7.611
1001-1500 kWh	9.418	6.968	9.611
1501-2500 kWh	9.418	6.968	10.811
>2500 kWh	9.418	6.968	11.611
<b>Energy Adjustment (¢/kWh)</b>	n/a	0.00	0.00
<b>Community Benefit Charge (¢/kWh)</b>			
Customer Assistance Program (¢/kWh)	n/a	0.065	0.065
Service Area Street Lighting (¢/kWh)	n/a	0.114	0.114
Energy Efficiency Charge (¢/kWh)	n/a	0.301	0.301
<b>Transmission Service Adjustment Rider (¢/kWh)</b>	0.082	n/a	n/a
<b>Regulatory Charge (¢/kWh)</b>	n/a	0.729	0.729
<b>Overall Rate Increase (%)</b>		22.9	22.9

Notes:

1. For the purposes of rate comparisons, the Fuel Adjustment Charge used in the rates is 3.398 cents/kWh based on the normalized TY revenue requirement results.
2. AE's existing Energy Charge does not include fuel-related costs. Fuel is charged separately through the Fuel Adjustment Clause. The Energy Charge shown here includes fuel-related costs based on the normalized TY revenue requirement results (TY 2009 fuel adjustment charge is 3.398 cents per kWh) as these costs are not part of the requested base rate increase.
3. The summer season under the current rate structure is from May through October; the non-summer season under the current rate structure is from November through April. Under the proposed rate structure, summer season would be June through September and non-summer season would be October through May.

Table 16 shows that while AE is proposing to increase the fixed charges (the customer and electric delivery charges) and add new variable pass-through charges (the regulatory and community benefit charges) applied to residential customers, prices for



the first two tiers under the energy charge including fuel are less than the current prices for the components of this charge. This helps to mitigate the impact of the proposed rate adjustment for residential customers who consume at or near the average amount of electricity for AE residential customers. Prices for the higher tiers, with the majority of usage being above average, are higher than current prices in order to send pricing signals to promote energy efficiency, conservation, and improve the economic incentive associated with distributed renewable alternatives such as solar PV. Under the proposed five-tier structure, the differential between the lowest and highest tier is 7.2 cents per kWh in the non-summer rate period and 9 cents per kWh in the summer rate period.

Table 17 compares residential electric bills as an annual monthly average at various levels of electricity usage under existing rates and proposed rates. Various levels of electricity usage are presented to show a diverse range of customer bills. More extensive electricity bill comparison data is included in Appendix F of the Rate Analysis and Recommendations Report.

**Table 17.**  
**Annual Average Monthly Residential Electric Bill Comparison at Various Levels of Electricity Usage**

	250 kWh	750 kWh	1,000 kWh	1,500 kWh	2,500 kWh	4,000 kWh
Cumulative Customer Electric Bills (% of Total)	12	51	65	82	95	99
Current Bill Adjusted for TY Fuel (\$)	23.37	66.53	92.33	143.92	247.10	401.86
Proposed Bill (\$)	39.97	78.58	102.21	160.32	289.53	496.35
Difference (\$)	16.60	12.04	9.88	16.40	42.43	94.48
Percent Change (%)	71	18	11	11	17	24

The proposed residential rate design is structured to improve fixed cost recovery by increasing the fixed charges while minimizing the rate increase for all residential electric bills under 1,500 kWh of consumption to below \$20 a month on average. Over 80 percent of customer electric bills are below 1,500 kWh. These results indicate that average annual electric bills for customers with average or below average consumption (1,000 kWh per month or less) will increase between \$10-\$17 per month. High-usage residential customers (1,500 kWh per month or greater) will see increases in their electric bills of between \$17-\$96 per month. It should be noted that due to the seasonal nature of the rate structure, in the summer rate period the increases in monthly electric bills will be greater than the average shown and during the non-summer rate period they will be less than the average.

The results are directly related to the residential rate structure. Improved fixed cost recovery related to higher customer and delivery charges adds \$19 per month to low-usage customers. This result yields a higher percentage increase in the monthly bill for low users although the dollar per month increase is comparable to other AE

customers with usage at or below 1,500 kWh per month. Residential customers who consume large amounts of electricity will see a larger increase in their monthly electric bill. This is a direct result of the inclining block rate structure and the associated energy efficiency and conservation pricing signals embedded in that structure.

### Residential Rate Option Scenario Analysis

Austin Energy prepared several rate design options for residential customers. While these different options are all designed to recover the full revenue requirement associated with residential electric service in the Austin community, they vary in some important ways. All Austin Energy residential rate options seek to recover more of the cost of service from fixed charges than was the case in the 1994 rates. As Table 18 shows, none of the options seek to implement rates strictly according to the cost of service analysis. The utility's goal is to implement rate redesign as close to cost of service as possible. Strict implementation would be impractical.

All Austin Energy residential rate design options continue the long-standing structure of providing a lower rate for the first tier of usage to encourage conservation and support efficient energy use. Some of the options include additional rate levels or tiers, with the rate increasing progressively as customers increase total energy use. This design feature encourages even more efficient use of energy by providing customers with a real savings incentive. Table 19 provides additional comparative information about the residential rate design options.

Components of the residential rate structure that are flexible in the rate design include the amount of the fixed charges (recognizing AE's need to improve fixed cost recovery in order to align with the utility's Strategic Plan) and the number, size, and rate levels for each block of the tiered block rate structure. The energy charge is used to recover any costs that are not fully recovered in other applicable charges. Thus, any reduction or removal of a fixed charge results in a proportionate increase in the energy charge. Likewise, any reduction or removal of the community benefit charge or the regulatory charge would result in a proportionate increase in the energy charge.

**Existing Rate with Adjusted TY Fuel** – Describes AE's existing residential rate adjusted for test year fuel costs to maintain consistency with the optional scenarios. The energy charge includes AE's current energy charge and the fuel adjustment clause adjusted for the Test Year cost of service results.

**Cost of Service** – Describes the results of the cost of service study completed for this rate review for the Residential customer class.

**Option Supported By Rate Analysis and Recommendations Report (Option A)** – Describes AE's proposal which is presented in this report and supported by the underlying rate analysis presented above as the best business case to achieve cost of service while meeting AE's rate review objectives.

**Shift Greater Fixed Costs to Energy Charge (Option B)** – This scenario lowers the proposed customer charge from \$15 to \$10 and passes those costs to energy users with

consumption above 1,000 kWh. This results in lower electric bills for low and average users and higher electric bills for high users compared to Option A.

**Maintain Current Energy Rates with New Fixed Charges (Option C)** – This scenario maintains the current energy rates (energy charge and the fuel adjustment clause adjusted for the Test Year cost of service results) under the current two-tier inclining block rate structure (which includes lower prices for the first 500 kWh of usage), applies the community benefit charge and regulatory charge at cost of service, and recovers the remainder of costs in the customer charge and electric delivery charge. Costs included in the community benefit charge, regulatory charge, and electric delivery charge, and costs not recovered in the \$6 a month in customer charge are currently recovered in the energy charge. This results in lower electric bills for very low users and high users and higher electric bills for average users compared to Option A.

**300 kWh Energy in Basic Monthly Charge with 4 Tiers (Option D)** – This scenario applies a \$30 basic monthly charge to include costs associated with the first 300 kWh of energy, applies the community benefit charge and regulatory charge at cost of service, and recovers the remainder of costs in the energy charge under a four-tier inclining block rate structure after the first 300 kWh of usage. This results in lower electric bills for low users, similar electric bills for average users, and slightly higher bills for some high users compared to Option A.

**Table 18.**  
**Residential Rate Options and Estimated Prices**

Residential Rate Options (summer season only)	Existing Rate	Cost of Service	Option Supported by Rate Analysis & Recommendation Report	Staff Options		
				Option A	Option B	Option C
Customer Charge (\$/month)	\$6.00	\$21.69	\$15.00	\$10.00	\$10.00	\$30.00
Electric Delivery (\$/month)	Inc. Below	\$14.13	\$10.00	\$10.00	\$6.24	N/A
Energy Charge (¢/kWh) – Summer Period (June-Sept)						
< 500 kWh (32% of bills)	6.948 ¢	7.504 ¢	5.514 ¢	5.514 ¢	6.948 ¢	0-300 (cust. charge)
501 – 1000 kWh (33% of bills)	11.218 ¢	7.504 ¢	9.514 ¢	9.514 ¢	11.218 ¢	300-1000 @ 10.000 ¢
1001 - 1500 kWh (18% of bills)	11.218 ¢	7.504 ¢	12.014 ¢	13.503 ¢	11.218 ¢	12.188 ¢
1501 – 2500 kWh (13% of bills)	11.218 ¢	7.504 ¢	13.514 ¢	16.003 ¢	11.218 ¢	13.712 ¢
> 2500 kWh (5% of bills)	11.218 ¢	7.504 ¢	14.514 ¢	17.503 ¢	11.218 ¢	14.728 ¢
Energy Adjustment (¢/kWh)	Inc. Above	-	-	-	-	-
Community Benefit (¢/kWh)		See below	See below	See below	See below	See below
Customer Assistance Program	Inc. Above	0.065 ¢	0.065 ¢	0.065 ¢	0.065 ¢	0.065 ¢
Service Area Street Lighting	Inc. Above	0.114 ¢	0.114 ¢	0.114 ¢	0.114 ¢	0.114 ¢
Energy Efficiency Charge	Inc. Above	0.301 ¢	0.301 ¢	0.301 ¢	0.301 ¢	0.301 ¢
Regulatory Charge (¢/kWh)	0.082 ¢	0.729 ¢	0.729 ¢	0.729 ¢	0.729 ¢	0.729 ¢
Average Monthly Bill at Usage Shown						
300 kWh Avg Annual Electric Bill	\$26.84	\$60.89	\$42.96	\$37.96	\$40.71	\$33.63
1000 kWh Avg Annual Electric Bill	\$92.33	\$119.39	\$102.21	\$97.21	\$113.16	\$102.76
2500 kWh Avg Annual Electric Bill	\$247.10	\$244.74	\$289.53	\$312.55	\$281.57	\$292.54
Monthly Dollar Difference from Current Rates						
300 kWh Avg Annual Electric Bill		\$34.05	\$16.12	\$11.12	\$13.87	\$6.78
1000 kWh Avg Annual Electric Bill		\$27.06	\$9.88	\$4.88	\$20.83	\$10.43
2500 kWh Avg Annual Electric Bill		(\$2.36)	\$42.43	\$65.45	\$34.47	\$45.44
Percent Change from Current Rates						
300 kWh Avg Annual Electric Bill		127%	60%	41%	52%	25%
1000 kWh Avg Annual Electric Bill		29%	11%	5%	23%	11%
2500 kWh Avg Annual Electric Bill		-1%	17%	27%	14%	18%

**Table 19.**  
**Evaluation Matrix for Residential Rate Options**

		<b>Option Supported by Rate Analysis &amp; Recommendation Report</b>	<b>Staff Options</b>		
<b>Rate Review Objectives and Policy Metrics</b>	<b>Cost of Service</b>	<b>Option A Achieve Rate Review Objectives</b>	<b>Option B Shift Greater Fixed Costs to Energy Charge</b>	<b>Option C Current Energy Rates with New Fixed Charges</b>	<b>Option D 300 kWh Energy in Basic Monthly Charge &amp; 4 Tiers</b>
<b>Achieves Revenue Stability</b>	Collecting all fixed costs in customer charge reduces revenue uncertainty due to economic volatility. Rate stabilization reserve established.	Improves fixed cost recovery and reduces revenue uncertainty. Rate stabilization reserve established.	Improves fixed cost recovery and reduces revenue uncertainty. Rate stabilization reserve established.	Improves fixed cost recovery and reduces revenue uncertainty. Rate stabilization reserve established.	Improves fixed cost recovery and reduces revenue uncertainty. Rate stabilization reserve established.
<b>Ensures Long-Term Financial Strength</b>	Meets revenue requirements.	Meets revenue requirements.	Meets revenue requirements.	Meets revenue requirements.	Meets revenue requirements.
<b>Improves Fixed Cost Recovery</b>	100%	70%	56%	45%	84%
<b>Promotes Energy Efficiency &amp; Distributed Solar</b>	Weak incentive.	Strong incentive.	Strong incentive.	Weak incentive.	Strong incentive.
<b>Minimize inter-class subsidies vs. cost of service study</b>	Achieves cost of service and eliminates all inter-class subsidies.	All rate classes within 5% of cost of service goal.	All rate classes within 5% of cost of service goal.	All rate classes within 5% of cost of service goal.	All rate classes within 5% of cost of service goal.
<b>Minimize intra-class subsidies vs. cost of service study</b>	No subsidy. All usage tiers at cost of service.	Intra-class subsidy at mid-level.	Highest intra-class subsidy.	Lowest intra-class subsidy.	Intra-class subsidy at mid-level.
<b>Provides Rates Simplicity</b>	Similar to 1994 structure.	Introduces multiple tiers.	Introduces multiple tiers.	Similar to 1994 structure.	Introduces multiple tiers.
<b>Customer Assistance Program funding.</b>	Improves.	Improves.	Improves.	Improves.	Improves.

## **Commercial and Industrial Rate Design**

The cost of service study indicates that while fixed cost recovery is a significant challenge for the Residential customer class, the current misalignment of fixed costs and fixed revenue recovery is not as pronounced for AE's commercial and industrial customer classes. Austin Energy is proposing a more equitable fixed cost recovery structure by removing customer service and distribution costs currently recovered in the demand charge and applying a customer charge and electric delivery charge for all commercial and industrial customers.

Currently, commercial and industrial customers with a peak demand of over 20 kW are assessed a demand charge (in kW), which is a charge specifically designed to collect fixed costs. A demand charge reflects the way in which certain costs are incurred and provides an incentive for customers to reduce their demand by making energy efficiency improvements or controlling the maximum demand they place on the system. Currently, small commercial customers with a peak demand of less than 20 kW do not pay a demand charge. Austin Energy is proposing that these small commercial customers be charged for demand under the new rate design. Charging all commercial and industrial customers a demand charge will improve fixed cost recovery from this customer segment and provide a pricing signal for energy efficiency and conservation to all customers. Austin Energy currently has almost 35,000 non-demand commercial customers. Austin Energy is proposing that current non-demand customers receive transition rates designed to mitigate immediate rate impacts on these customers as they transition from a non-demand rate to a demand rate.

Given these considerations, as well as consideration of AE's rate review objectives, AE's recommendations for commercial and industrial rate design are summarized in Table 20.

**Table 20.**  
**Summary of Recommendations Specific to Commercial and Industrial Rate Design**

<b>Austin Energy Staff Recommendations</b>
1) Introduce and apply a customer charge at or near cost of service for all commercial and industrial customers.
2) Unbundle rates and apply an electric delivery charge on a \$/kW basis at or near cost of service for all commercial and industrial customers.
3) Expand the use of demand charges to all Secondary Voltage customers
4) Phase in demand-related charges (electric delivery and demand charge on a \$/kW basis) over three years for current non-demand customers including all Secondary Voltage <10 kW customer class.
5) Increase power factor adjustment from 85 to 90 percent to all commercial and industrial customers.
6) Implement a time-of-use rate option for each commercial and industrial class with an enrollment cap of the higher of 10 percent of the customers in the class or 10 customers for each class.
7) Revise existing thermal storage rate to offer customers increased flexibility with respect to on-peak pricing periods.

The proposed rates and overall rate increase or decrease for each commercial and industrial customer class are provided in Table 21.



**Table 21.**  
**Commercial and Industrial Proposed Rates**

Commercial and Industrial Proposed Rates	Secondary Service <10 kW	Secondary Service 10-<50 kW Non-Demand	Secondary Service 10-<50 kW	Secondary Service ≥50 kW Non-Demand	Secondary Service ≥50 kW	Primary Service <3MW	Primary Service 3 - <20 MW	Primary Service ≥20 MW	Transmission
Customer Charge (\$/month)	18.00	25.00	25.00	65.00	65.00	250.00	2000.00	2500.00	2500.00
Electric Delivery (\$/kW billed)	1.50	2.00	4.00	2.00	4.50	2.50	3.50	3.50	N/A
<b>Demand (\$/kW billed)</b>									
Summer	1.00	2.00	6.50	2.00	8.00	10.00	13.00	13.00	13.00
Non-Summer	1.00	2.00	5.50	2.00	7.00	9.00	12.00	12.00	12.00
<b>Energy (¢/kWh)</b>									
Summer	9.097¢	7.505¢	5.868¢	7.855¢	5.142¢	4.127¢	4.004¢	3.945¢	3.466¢
Non-Summer	7.278¢	7.023¢	5.491¢	7.351¢	4.812¢	3.862¢	3.747¢	3.692¢	3.243¢
<b>Community Benefit Charges (¢/kWh)</b>									
Customer Assistance Program	0.065¢	0.065¢	0.065¢	0.065¢	0.065¢	0.065¢	0.065¢	0.065¢	0.065¢
Service Area Street Lighting	0.113¢	0.088¢	0.088¢	0.078¢	0.078¢	0.066¢	0.062¢	0.059¢	0.053¢
Energy Efficiency Charge	0.296¢	0.231¢	0.231¢	0.206¢	0.206¢	0.174¢	0.162¢	0.156¢	0.139¢
<b>Regulatory Charge</b>									
(¢/kWh)	0.711¢								
(\$/kW billed)		2.44	2.44	2.57	2.57	2.28	2.93	2.92	2.49
Percent Class Rate Change	22%	9%	9%	6%	6%	1%	16%	15%	-5%

Due to the high number of commercial and industrial customer classes, bill impact results are not provided in this report. Bill impact results are provided in Section 7 of the Rate Analysis and Recommendations Report and more extensive electricity bill comparison data is included in Appendix G and Appendix H of that report. Information on proposed lighting rates is provided in Section 8 of the Rate Analysis and Recommendations Report.

## Rate Review Policy Guidelines

Austin Energy developed a series of policy goals and metrics as identified in Table 22 to serve as a guide for evaluating the reasonableness of this proposal and the new rates adopted during the public review process. These policy guidelines are intended to ensure that the utility satisfies its rate review objectives for financial strength and fair and equitable rates, among others.

**Table 22.**  
**Rate Review Policy Goals and Metrics**

Policy Goals	Metrics
<b>Achieve Revenue Requirement</b>	Revenues sufficient to fund core functions & strategic objectives.
<b>Align with Cost of Service (minimize subsidies across customer classes)</b>	No customer class pays greater than 105% or less than 95% of its cost of service.
<b>Provide Affordable Energy (mitigate impacts within customer classes)</b>	<ul style="list-style-type: none"><li>o No residential customer electric bill below 1,500 kWh to increase by more than \$20 per month on average.</li><li>o Transition non-demand secondary commercial customers to demand rates.</li></ul>
<b>Affordability Forecast Goal</b>	System average rate increases of no more than 2% annually, after implementation of new rates and rate design.
<b>Rate Benchmarking</b>	Customer bills within the lowest 50% of comparable Texas utilities.
<b>Customer Assistance Program</b>	<ul style="list-style-type: none"><li>o Increase funding by at least 100 percent to increase the numbers of customers receiving assistance.</li><li>o Provide a Customer Assistance Program discount of \$25 per month.</li></ul>
<b>Achieve Long-Term Financial Stability</b>	<ul style="list-style-type: none"><li>o New rate design ensures utility's long-term financial strength &amp; are in compliance with Financial Policies.</li><li>o Improve recovery of Customer and Distribution fixed costs through fixed charge collection to at least 60%.</li><li>o Maintains or improves credit ratings.</li></ul>
<b>Maintain Renewable Energy Program Excellence (GreenChoice® &amp; Solar)</b>	<ul style="list-style-type: none"><li>o Rate redesign retains national leadership position of GreenChoice®.</li><li>o Continue solar incentives coupled with net metering rate redesign.</li></ul>

**Achieve Revenue Requirement and Long-Term Financial Stability**

Achieving the utility's revenue requirement helps ensure the utility's continued financial strength. Austin Energy is proposing an increase in rates based on the calculation of AE's Test Year revenue requirement and detailed in Table 3. As previously discussed, 17 of AE's largest commercial and industrial customers are served under special contract terms that run through May 2015. It is expected that current contract customers would be priced at the proposed rates once their contracts expire. Due to the terms of those contracts, AE will not collect its full annual revenue requirement until FY 2016. Until that time, the utility is projected to under-recover nearly \$20 million a year.

Austin Energy is guided by financial policies set by the City Council to achieve certain specific strategic goals and assure the utility's long-term financial viability. Table 23 and Table 24 present information on some of the utility's key financial policies. Table 23 shows AE's required debt service coverage ratio of at least 2.0 compared to projections. Results are shown for Test Year 2009, FY 2012 to represent the near-term recovery from proposed new rates, and FY 2016 assuming that rates are adjusted to price special contract customers at their cost of service once their contracts expire. These values are reflective of the Test Year 2009 cost structure and sales to each customer class. This shows that under the proposed rates, AE is projected to satisfy its 2.0 debt service coverage ratio in 2012.

**Table 23.**  
**Debt Service Coverage Based on Proposed Rates**

<b>Financial Policy</b>	<b>Goal</b>	<b>2009</b>	<b>2012</b>	<b>2016</b>
Debt Service Coverage	At Minimum 2.00	1.58	2.24	2.37

Table 24 shows the three reserve funds specified in City Council policies that are currently unfunded. The proposed rates are designed to gradually fund these reserves over time based on annual contributions of approximately \$22.7 million. This annual contribution is included as a use of cash in the margin calculation to provide future revenue for AE to replenish reserve levels given that available system revenues are applied to operation and maintenance expenses, debt service, capital improvement projects, General Fund transfer, and other operating costs that have priority over reserve contributions.

**Table 24.**  
**Unfunded Reserve Requirements**

<b>Financial Policy</b>	<b>Goal</b>	<b>Test Year 2009 Reserve Requirements (in millions)</b>
Repair and Replacement Fund (\$)	1/2 of annual depreciation	61.2
Strategic Reserve Fund (Rate Stabilization Reserve)	90 days of net power supply cost	97.9
Non-Nuclear Plant Decommissioning Fund (\$)	Sufficient funding to ensure funds are available for decommissioning expense	67.2

### **Align with Cost of Service**

Aligning rates to the extent possible with cost of service ensures that customers pay their fair share for receiving electric services while minimizing inter-class subsidization. To maintain the affordability of electricity and meet other objectives such as providing a discount to low-income or other disadvantaged customers, rates may be set that deviate from cost of service. Given these considerations, AE has determined that it is reasonable to bound the revenue requirement by customer class such that no class pays greater than 105 percent or less than 95 percent of its cost of service, recognizing that the utility must also achieve its total revenue requirement. Table 12 shows the cost of service results versus proposed rates by customer class to reflect the cost re-distribution proposed by AE to help share the needed revenue increase among the customer classes.

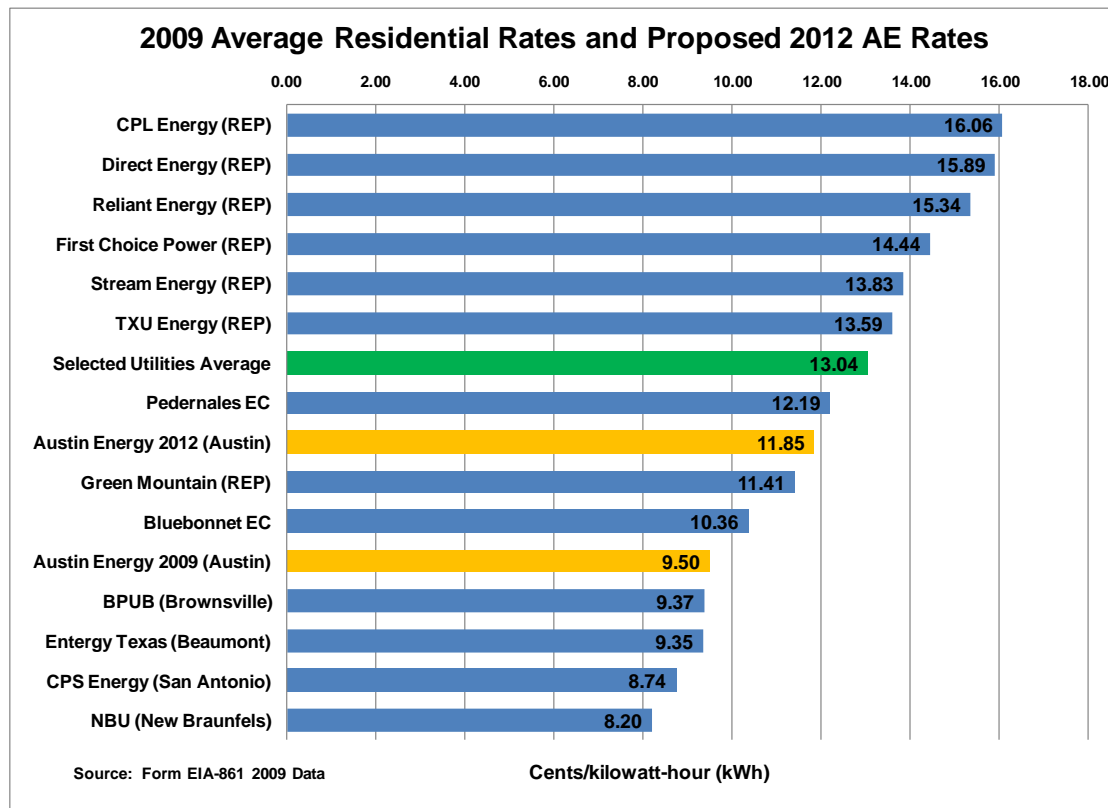
### **Affordability Goal and Electric Rate Benchmarking**

Austin Energy is also committed to maintaining the affordability of electricity in the community and has established goals to keep customer electric bills low and comparable to other customers around the State. On February 17, 2011, the City Council approved the utility's Resource Plan including an affordability goal. The affordability goal requires that AE operate so as to control rate (base, fuel, riders, etc.) increases to residential, commercial, and industrial customers to 2 percent or less per year. In addition, the goal is to maintain AE's current all-in competitive rates in the lower 50 percent of Texas rates. The affordability goal will be effective upon implementation of AE's new rates following this rate review.

Specifically for this rate review, AE has established goals for mitigating the impact of rate increases within customer classes by designing rates that prevent residential customer electric bills below 1,500 kWh from increasing by more than \$20 a month on average and transitioning Secondary Voltage commercial customers currently not being assessed demand rates to demand rates. Increasing funding to the Customer Assistance Program will also help the most disadvantaged customers served by AE continue to afford electricity.

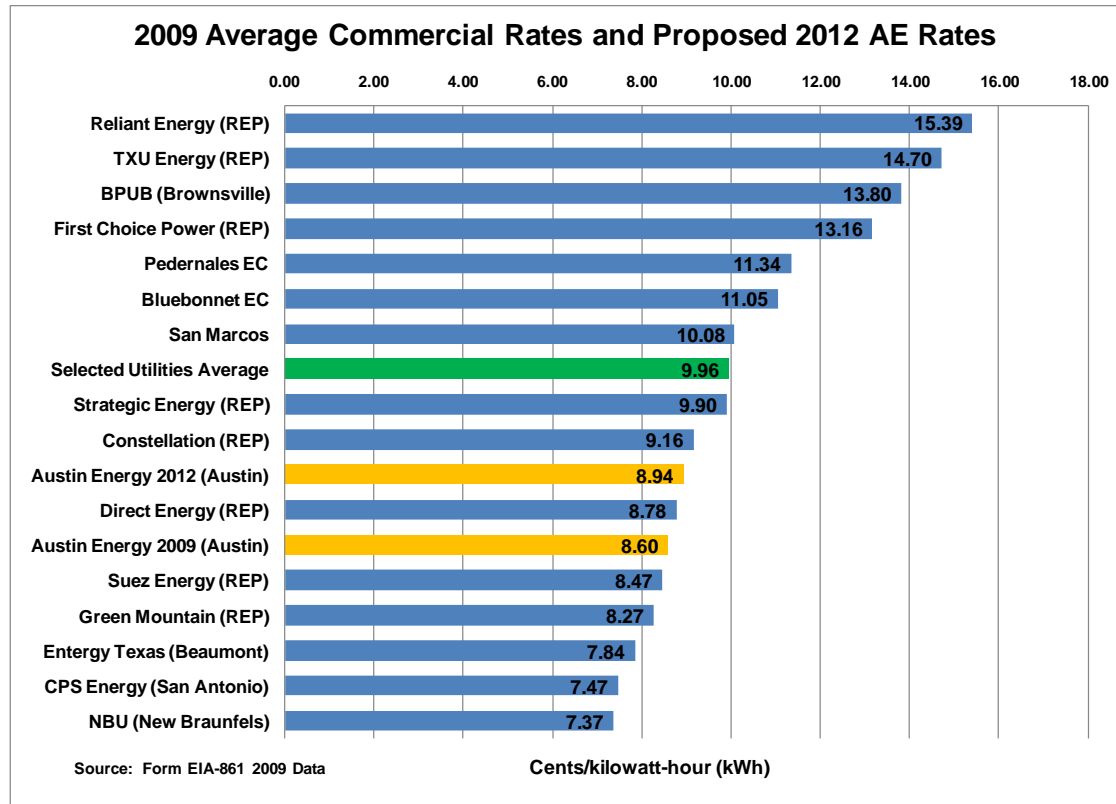
Austin Energy completed its first comprehensive electric rate benchmarking study in November 2010 and concluded that AE's electric rates, particularly average electric bills, have been comparable to, and at times lower than, other utilities and electric service providers in Texas. Results from that study have been updated to show the most current benchmarking available to compare with AE's proposed rates. Figure 5, Figure 6, and Figure 7 respectively show average residential, commercial, and industrial rate comparisons between AE and other major electric service providers in Texas for 2009 based upon data from the U.S. Energy Information Administration (EIA-861 data). For Figure 7 two data points are shown for the proposed rates because existing industrial customers are currently on contract rates through May 2015 so they will not receive a rate increase at this time. Austin Energy 2012 average rates for existing contract customers as well as for new customers at the proposed rates is included in Figure 7. This data shows that in 2009 (the last year for which results are currently available and the same year as AE's cost of service study) AE's average residential, commercial, and industrial rates were among the lowest in Texas and even under the proposed new rates AE's average remains lower than the average of the selected comparable utilities.

**Figure 5.**  
**Average Residential Rates in Texas – 2009 Compared to AE Staff Recommendation**



Source: EIA Form 861 – 2009, [www.eia.doe.gov/cneaf/electricity/page/eia861.html](http://www.eia.doe.gov/cneaf/electricity/page/eia861.html), except for Austin Energy 2012.

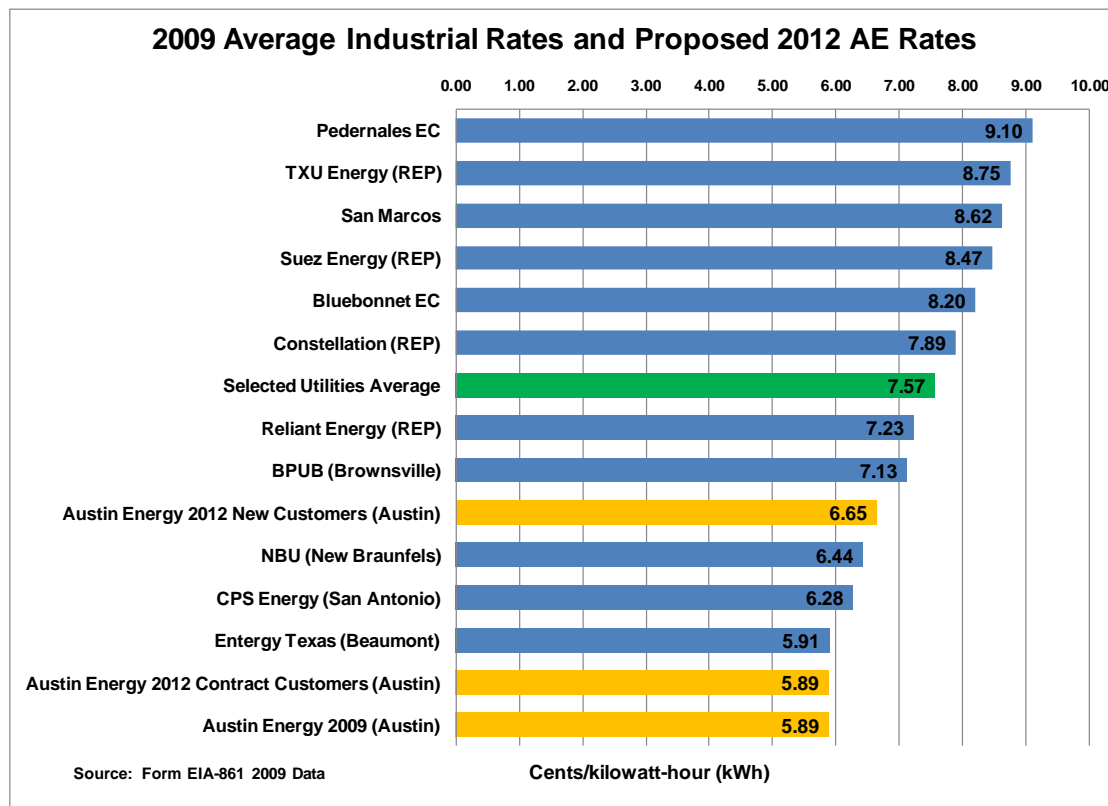
**Figure 6.**  
**Average Commercial Rates in Texas – 2009 Compared to Proposed Average Commercial Rates (Based on Test Year 2009)**



Source: EIA Form 861 – 2009, [www.eia.doe.gov/cneaf/electricity/page/eia861.html](http://www.eia.doe.gov/cneaf/electricity/page/eia861.html), except for Austin Energy 2012.



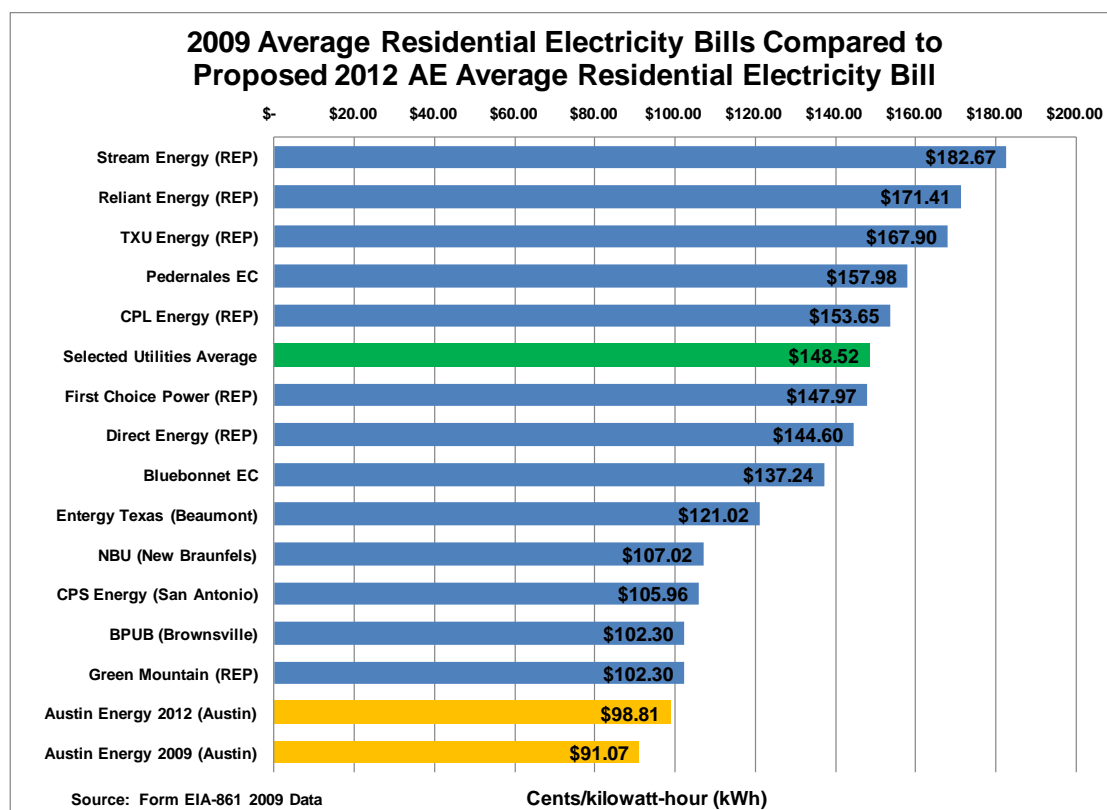
**Figure 7.**  
**Average Industrial Rates in Texas – 2009 Compared to Proposed Average Industrial Rates (Based on Test Year 2009)**



Source: EIA Form 861 – 2009, [www.eia.doe.gov/cneaf/electricity/page/eia861.html](http://www.eia.doe.gov/cneaf/electricity/page/eia861.html), except for Austin Energy 2012.

The EIA-861 data for average residential consumption and average residential rates can be used to calculate an average residential electric bill. These results, presented in Figure 8, show that average residential electric bills are considerably lower in AE than average residential electric bills in other areas of Texas. In 2009 an average residential AE customer using 964 kWh would have had an average electric bill of about \$91 a month. Under AE's proposed rates, electric bills at 964 kWh per month would be about \$99 a month on average. This compares to an average electric bill in selected utilities of over \$148 a month in 2009. The results for this analysis for AE 2012 rates are dependent upon the new residential rate structure adopted. Each optional scenario developed by AE would have a slightly different result.

**Figure 8.**  
**Average Residential Electric Bill in Texas – 2009 Compared to AE Staff Recommendation (Option A)**



Source: EIA Form 861 – 2009, [www.eia.doe.gov/cneaf/electricity/page/eia861.html](http://www.eia.doe.gov/cneaf/electricity/page/eia861.html), except for Austin Energy 2012.

## Decision Point List

The decision point list is a list of key issues for consideration by the EUC in its review of this rate proposal. This list may be expanded during the course of the EUC review process as needed. The decision point list includes AE's recommendations and will later include the positions of participants in the EUC review process. This list serves as a framework for discussion of issues during the EUC review process and will ultimately memorialize the recommendations of AE, the EUC, and public participants for submission to the City Council. The draft decision point list is provided as Appendix A to this report.



**Appendix A:  
Austin Energy 2011 Rate Review  
Decision Point List**

<b>Issue</b>	<b>Austin Energy Staff Recommendation<sup>3</sup></b>	<b>Residential Rate Advisor</b>	<b>Other Parties</b>	<b>EUC</b>
1) Achieve Revenue Requirement	Collect revenues from all customer classes sufficient to fund core functions and the utility's strategic objectives. Increase overall revenues based on the Test Year 2009 results from \$1,004,133,897 to \$1,111,135,775, or an 11.1% increase.			
2) Align Rates by Customer Class with Cost of Service (minimize subsidies across customer classes)	No customer class should pay greater than 105 percent or less than 95 percent of its cost of service in the implemented new rates, with the condition that the utility achieve its total revenue requirement through implemented rates with the exception of contract customers.			
3) Set Policy Bounds on Customer Class Alignment with Cost of Service	Set the Residential, Secondary Voltage <10 kW, and Lighting customer class target revenues at 95 percent of cost of service and set all other customer classes at 104 percent of cost of service.			

<sup>3</sup> Preliminary; to be finalized for final proposal to the Austin City Council based on consideration of public input and input from the EUC.

Issue	Austin Energy Staff Recommendation <sup>3</sup>	Residential Rate Advisor	Other Parties	EUC
4) Mitigate Impacts Within Customer Classes	(a) No residential customer electric bill below 1,500 kWh should increase by more than \$20 a month on average. (b) Transition non-demand secondary commercial customers to demand rates.			
5) Select a Production Demand Cost Allocation Method	Apply the Average and Excess Demand Method to 1) recognize that customers benefit from both capacity and energy produced from generation assets; 2) to reward high load factor and energy efficient customers; 3) to be consistent with methodologies commonly used in Texas and around the country.			
6) Consolidate Customer Classes	Consolidate current customer classes from 24 to 9 classes and develop classes based on cost of service differentials, including unique service requirements and electricity usage characteristics.			
7) Update Rate Structure for Residential Customers	Unbundle rates and apply a customer charge, electric delivery charge, energy charge, regulatory charge, community benefit charge, and energy adjustment.			

Issue	Austin Energy Staff Recommendation <sup>3</sup>	Residential Rate Advisor	Other Parties	EUC
8) Update Rate Structure for Commercial and Industrial Customers	Unbundle rates and apply a customer charge, electric delivery charge, energy charge, demand charge, regulatory charge, community benefit charge, and energy adjustment.			
9) Update Fuel and Energy Market Costs Recovery Mechanism	Recover Test Year fuel-related costs in the energy charge and apply an energy adjustment in future years to account for future fluctuations in fuel-related and energy market costs.			
10) Apply Regulatory Charge	Add a regulatory charge to recover costs associated with transmission and ERCOT fees and remove these costs from the energy charge.			
11) Apply Community Benefit Charge	Add a community benefit charge to recover costs associated with the Customer Assistance Program, service area lighting, and energy efficiency programs and remove these costs from the energy charge.			
12) Update Summer Rate Period	Shorten summer rate period from six (May – October) to four months (June – September) so that stronger pricing signals can be provided during the summer time period and to align with ERCOT.			

Issue	Austin Energy Staff Recommendation <sup>3</sup>	Residential Rate Advisor	Other Parties	EUC
13) Apply Residential Customer Charge	Raise the current residential customer charge from \$6 to \$15 and remove this portion of residential customer-related costs from the variable energy charge.			
14) Apply Residential Electric Delivery Charge	Move distribution costs from the energy charge to an electric delivery charge for residential customers set at \$10 and remove this portion of residential distribution costs from the variable energy charge.			
15) Implement Residential Inclining Block Tiered Rate Structure for Energy Charge	Expand existing residential inclining block rate structure from two tiers to five tiers to provide stronger conservation and energy efficiency pricing signals to the highest users in the residential customer class.			
16) Fund Customer Assistance Program	Fund the Customer Assistance Program with a Community Benefit Charge sub-component of \$0.00065/kWh to all customers.			
17) Apply Commercial and Industrial Customer Charge	Apply customer charge at or near cost of service for commercial and industrial customers.			
18) Apply Commercial and Industrial Electric Delivery Charge	Unbundle rates and apply an electric delivery charge on a \$/kW basis at or near cost of service for all commercial and industrial customers.			

Issue	Austin Energy Staff Recommendation <sup>3</sup>	Residential Rate Advisor	Other Parties	EUC
19) Apply Commercial and Industrial Demand Charge	Expand use of demand charges to all commercial and industrial customers and implement a three-year phase-in of demand-related charges (electric delivery and demand charge on a \$/kW basis) for the current non-demand customers.			
20) Apply Power Factor Adjustment for Commercial and Industrial Customers	Apply a power factor adjustment of 90 percent to all commercial and industrial customers with the exception of current non-demand customers during the phase-in period and customers with demand less than 10 kW.			
21) Implement Time-of-Use Alternative Rates	Implement a time-of-use alternative rate for residential customers with a 2,000 customer enrollment cap and implement time-of-use rates for each commercial and industrial customer class with an enrollment cap of the higher of 10 percent of the customers in the class or 10 customers for each class.			
22) Update Renewable Energy Alternative Rate (GreenChoice®)	Maintain the GreenChoice alternative rate for customers who wish to receive a 100 percent renewable energy price that is locked in and use a bundled portfolio approach that prorates the GreenChoice			



Issue	Austin Energy Staff Recommendation <sup>3</sup>	Residential Rate Advisor	Other Parties	EUC
	adjustmentto account for system-wide renewables.			
23) Update Net Metering Alternative Rate	Maintain a net metering rate for customers with distributed generation (e.g., solar PV) and apply a credit at the annual value of solar rate for excess energy generated on a monthly basis with the intent to move to a separate solar rate when meter data management capabilities are achieved.			
24) Update Thermal Energy Rate Option	Update existing thermal storage rate option to support customer investment in this technology.			
25) Plan for Pricing Pilot Projects with Pecan Street Project	Austin Energy will work with the Pecan Street Project to pilot new rates for customers. Any pilot project implemented must first be approved by the Austin City Council.			
26) Plan for Future Pricing of Long-Term Contract Customers	Move long-term contract customers to cost of service-based rates upon expiration of their contracts in 2015.			